More than 1,000 reported killed ● Party hails great victory over 'thugs and criminals' ● Workers call protest strike

# World condemns Peking massacre

By Robert Thomson in Peking and Robin Pauley in London

CHINESE soldiers again turned Peking into a battle zone late last night with tanks firing in the streets as interna-tional condemnation of the massacre of unarmed demon-

the city's hospitals were overflowing. Dead and wounded pro-democracy protestors were ferried off the burning streets as the casualty list rose. The death toll ran into several hundreds, possibly over 1,000, although no correspond to the city of the corresponding to the city of the over 1,000, although no accurate figures were available. More than 100 tanks, rolling through the streets to reinforce

troops in control of the city, were stoned by protesting youths, who had attempted to stop the military convoy with bases parked in the centre of the main roads and set alight. There were unconfirmed reports that troops had gone to the university district to arrest

students and that tear gas was used to disperse protesters.
Access to the west of the city is now blocked by troop road-blocks and by the barricades set up by protesters to hinder troop movements.
Chinese workers have attempted to organise a strike

for today to protest against the killings, but it is unlikely that many factories or offices will be open anyway. Protesters have been building stocks of molotov cocktails, and there were reports that workers have been gathering firearms.

The Chinese Communist arty released a statement congratulating the troops on a "great victory" in successfully

"great victory" in successfully quashing a "counter-revolu-tionary rebellion" orchestrated by "thugs and criminals." But behind this rhetoric and the weekend's bloodbath the Chinese leadership is facing possibly its worst crisis since the revolution of 1949 and cer-

### World News

### Floods leave 164 dead in Sri Lanka

At least 164 people have been killed by floods and landslides in south west Sri Lanka caused by heavy rains over the past few days, which have left more

### Polish vote

Poles flocked to vote in parliamentary elections giving them a choice for the first time in more than 40 years of Commu-

French residence The French Government has eased the rules governing for-eigners resident in France through a new law. Page 22

Soviet bugging claim The Soviet newspaper Izvestia said high-frequency radio waves used in bugging devices may have killed two Russians in London. Page 14

**UK union merger** Transport and General Workers Union, Britain's largest union and MSF, the sixth largest union, are to open merger

Afghan attack At least 14 people have been killed in rebel rocket attacks on two Afghan cities.

Libyan forces gather Libya has gathered troops and is preparing to attack Chad through Sudan.

**Italian** prison fire

Eight prisoners and two female warders died when fire broke out at a women's jail in Turin in northern Italy.

### SA writer killed

South African writer and editor Richard Rive, whose works depicted the plight of Coloured people under apartheid, was found murdered in Cape Town.

West Bank clashes Three Palestinian guerrillas and an Israeli soldler were killed in a clash on Israel's northern border, the fourth

£.

such battle in just over a week. Rose theatre appeal Campaigners fighting to save the Elizabethan Rose Theatre In South London launched an appeal in the United States they hope will raise millions

ON INSIDE PAGES

### Background and analysis; Reaction around the world, Page 3 • Editorial comment,

Page 20 tainly since the disastrous days of the Cultural Revolu-tion in the 1960s and 1970s. The leadership is deeply divided and so is the military. The measure of unarmed pro-testers has made the country even more unstable than the tank convoys suggest and pro-longed insurrection, if not civil

war, cannot yet be relied out.
Tianammen Square, the focal
point of six weeks of demonstrations for democracy and a
change of leadership, was occupied by tens of thousands of
troops last night. In addition to
tanks and symmetry of the second tanks and armoured personnel carriers, the hardware included anti-aircraft guns, suggesting leadership doubts about the loyalty of the air force in other

parts of the country.
The assembled force is now many times larger than that needed to contain pro-democsters. It is significant that Deng Xiaoping, the senior leader, had been disturbed in recent weeks by reports that a coup was being plotted against him. One report said the order was given by Deng from a hospital where he is allegedly being treated for cancer.

being treated for cancer.

The country is still awaiting the formal purge of Zhao ziyang, the Communist Party General-Secretary, who had shown sympathy towards the protesters, and the dismissel of the Dafence Minister, Qin lived who was particularly Jiwei, who was particularly reluctant to use troops against the pro-democracy protesters. President George Bush of the

Business Summary

### Opec nears oil production agreement

Opec oil ministers in Vienna appeared to be moving towards a new production agreement to lift production by at least 1m barrels a day. Page 22

Interest rates continued to rise in EMS countries last week in response to the dollar's continued strength. The Danish krone remained very weak, and was trading close to its divergence limit

from central rates. The softer tone came despite a widening of interest rate differentials in favour of the krone against

EMS	J	une 2,1989
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D Krone B Franc		
F Franc Lira Icish Puni	1	₩.
D-Mark Gulider	F	
. Starting	VERGENCE	(14.42)
	<b>606</b>	-

Link ECU Party Day Position The chart shows the two con-

The chart status are any constants on European Monetary System rates. The upper grid, based on the weakest currency, defines the cross-rates from which no currency (except the kra) may move more than 24 per cent. The lower chart gives each currency's move from the "central rate" against the Euro-pean Currency Unit (ECU), a basket of European currencies.

EUROPEAN Commission is likely to call on Italy to close its Bagnoli steel smelter near Naples by March. Page 22

MORT HENNESSY-Louis Vuitton, the French champagne and cognac and group, is expected to reappoint Bernard Arnault as chairman at a shareholders' meeting despite hids to oust him. Page 26

**RERGEN Stock Exchange** signed a general agreement with the Norwegian Options Market (NOM) clearing a way for options trading. Page 26 **EUROPKAN** airlines have

expressed an interest in buying a stake in Mexicana, the Mexican flag carrier. Page 26 PORTUGUAL intends to denationalise state-run corporations created in the 1975 revolution.

US and Mrs Margaret Thatcher, the British prime Thatcher, the Brusan prime Minister, were among the first leaders to protest. President Bush, deploring the massacre, said: "I hope that China will ripidly return to the path of political and economic reform contain and economic renorms and conditions of stability so that this relationship, so important to both our peoples, can continue its growth."

Mrs Thatcher said she was deeply appalled by the indiscriminate shooting of unarmed

people. Within the region, Mr Bob Hawke, the Australian Prime Minister, attacked the military crackdown and cancelled a

goodwill visit to Shanghai by an Australian frigate. Austria, France, Spain, Thailand, Holland, West Germany and Sweden all protested strongly and in Norway, China's ambassador was sumna s amoustant was sum-moned to the Norwegian For-eign Ministry and handed an official protest note.

Union leaders in Hong Kong

Union leaders in Hong Kong yesterday called a general strike and mass rally for Wednesday to protest against the bloody suppression of the students called for an economic boycott of China. More than 200,000 Hong Kong people, many wearing mourning colours of black or white, demonstrated against the massacre yesterday.

Taiwan put its armed forces on increased alert for fear China may take military action to divert attention from inter-

Austria, France, Spain, Thaiand, Holland, West Germany and Sweden all protested strongly and, in Norway, China's ambassador was sum-moned to the Norwegian Foreign Ministry and handed an official protest note.



Students try to protect a captured tank driver from a beating at the hands of angry crowds in Tia

# A city mourns as tanks take over

PEKING is a city in mourning but still defiant. Elderly men, black cotton patches sewn on white shirts, were cycling silently through burning, debris-ridden streets late yes-terday, writes Robert Thomson

On the fringe of Tiananmen Square, a pair of crushed spec-tacles lay in a pool of blood, and flames flickered from the body of a bus that had been gutted the night before and set alight by frustrated protesters. Changan Avenue, which divides the city in two, bases that had been in the path of oncoming tanks were burnt

oncoming tanks were burnt out or torn apart. The debris formed a carpet of rocks and broken glass

Lines of troops, some crouched at the ready behind machine guns pointed down Changan, blocked off the square, which was occupied by dozens of tanks and strangely. square, which was occupied by dozens of tanks and, strangely, anti-aircraft guns, fuelling rumours that the troops fear they will be attacked by their

own army or air force.

The crowds continued to show remarkable courage in the face of all this firepower. Soldiers were taunted, pro-democracy slogans were shouted, and stones were thrown even though the troops were out of range. Rarlier in the day, about 30 people committing the same "crimes" were killed or wounded by bursts of fire. or wounded by pursts of fire.
Every time a helicopter gunship flew overhead, the crowd
scattered, fearing another
massacre. Youths threw rocks

at the unreachable target. It was a potent symbol of the ich between angry peonismatch between angry peo-ple and heavily armed troops.
Citizens were reminded early today of the state of war by tanks doing circuits of the city – there seemed to be no purpose other than intimida-tion of a people already too frightened to leave their

Protesters had re-erected barricades on Changan, and a lone pro-democracy banner, Continued on Page 22

# Hundreds killed in Soviet rail gas explosion

EXEDBEDS of Soviet schoolchildren and holiday-makers were feared dead or appallingly burned last night after a massive gas explosion wrecked two passenger trains simultaneously on the trans-Siberian railway.

President Mikhail Gorbachev, the Soviet leader, who

chev, the Soviet leader, who disaster on bad management and renewed a plea for "order and discipline in all spheres of life."

where the main gas pipeline from the giant Tyumen field

The accident happened

crosses the Ural mountains on its way to the European part of the Soviet Union and markets in the West. The death toll is feared to be more than 650.

Mr Gorbachev said a spark from the wheels of one of the trains apparently ignited gas which had leaked out and accumulated in a railway cut-

In a stern rebuke he told Soviet television viewers: "One accident is happening after another. People are being lost. I have to say that, like many other cases, at the bottom of this lie bad management, poor

crganisation and disorder." Regulations had been broken and "we will draw the necessary conclusions," he said.
The Soviet authorities declared today a day of national mourning.
Soviet television showed Mr

Gorbachev picking his way through the crash site, where twisted and burned out. The railway line had been ripped up in the combined force of the explosion and crash. Broken glass from train carriages was found in a village 12km away. Dozens of acres of forest focated from poisonous fumes in the train fire, rescuers said. Tass, the official news agency, said that two trains carrying more than 1,200 pas-sengers - hundreds of them schoolchildren going to and from summer camps on the Black Sea - were caught simultaneously going in oppo-

sion, and many of the dead suf-

site directions in a huge explo-sion of natural gas. By last night only 400 of them, including the dead, had been accounted for. Soldiers were scouring the nearby the hope that some passengers were able to escape from the whirlwind of fire," the agency

A local journalist in Chelvabinsk, Mr Vitaly Cherepanov, told Reuters news agency last night that at least 650 passenravine, and the accumulated condensed gas left little air for survivors.

The explosion derailed one train, sending it crashing into the second which then caught Continued on Page 22

### Tehran appoints Khomeini successor

D 8523A

By Victor Mallet Middle East Correspondent

IRAN'S ruling clergymen yesterday appointed President Ali Khamenei as the country's leader, swiftly replacing Aya-tollah Ruhollah Khomeini, the father of the Islamic Revolu-tion who died on Saturday at

the age of 86. Ayatollah returned in triumph to Iran from exile in 1979 when his supporters overthrew the Shah. He ushered in a period of religious fundamentalism dividing the Moslem world and

antagonising the West.
The sudden promotion of President Khamenei, a Shia Moslem cleric, came as a surprise and it was not immediately clear whether the appointment was temporary or permanent. He is not among the half dozen surviving Grand Ayatollahs, Iran's most senior leaders, and it is unlikely that he will wield the full authority

of his predecessor.

Iran's official media said the 83-seat Assembly of Experts, set up to pick a successor to Ayatollah Khomeini, had chosen Khamenei by a majority of more than two thirds.

President Khamenei is obliged by the constitution to step down this year after two terms in his current post. Ira-nians go to the polls in August to elect a new president and vote in a referendum which is expected to approve constitutional changes giving the presidency more executive power. Hojatoleslam Ali Akbar Hashemi Rafsanjani, the speaker of the Iranian parlia-ment and acting head of the armed forces, is so far the only

adidate for the presidency, and has Khamenei's backing. Together the two men would Together the two men would make a powerful combination: they are likely to promote a moderate foreign policy aimed at improving Iran's international image and at winning foreign assistance to rebuild the economy after last year's ceasefire in the Gulf war.

Avatollah Khomeini

Ayatollah Khomeini -scourge of the US and of the rulers of the Gulf states apparently died of a heart attack after an operation 11 days earlier to stop internal bleeding. He is expected to be The Iranian authorities yes-

terday decreed a 40-day period of mourning, including a initial week off work. Iran after Khomeini, Page 2; Editorial Comment, Page 20; Islam Revolutionary, Page 21

# Moscow parliamentary bodies to bring KGB under scrutiny

By Quentin Peel in Moscow

THE Soviet Union's new standing parliament is to set up high-profile committees to oversee Government poli-cy – including one which will cover both defence and state security and for the first time bring the KGB, the Soviet secu-rity police, under a degree of public scrutiny.

The committees will include members of both the Supreme Soviet – the indirectly-elected standing parliament – and the more radical, directly-elected more radical, directly-elected Congress of People's Deputies. The new Congress last week heard unprecedented public attacks on the powers of the KGB during early sessions car-ried by television to enormous andiences across the country.

A proposal for a committee which would oversee only the KGB was rejected as unnecessary, leaving its functions linked with external defence — an evident concession to its supporters. - .

. The precise powers of the new committees have yet to be set out; how openly they will

THE MONDAY INTERVIEW

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sit, and whether they will have substantial independent substantial independent research staffs to analyse and criticise Government policy, like those of the US Congress.

That is a proposal which is likely to be supported by Dr Yevgeny Primakov, the foreign affairs analyst who was elected on Saturday as the first chairman of the Soviet of the Union, one of the two chambers of the Surrene Soviet.

Supreme Soviet.
Both President Gorbachev and Dr Primakov stressed the need for much greater separa-tion of executive and legisla-tive authority in the Soviet The Soviet of the Union,

with 271 members, is the cham-ber dealing with all-USSR quesber dealing with all-USSM questions, while the Soviet of Nationalities, expected to meet this afternoon, is supposed to deal with relations between the 15 constituent republics.

The key committees will involve both chambers, covering formion affairs the legal

ing foreign affairs, the legal system, economic reform, civil rights, education, health and

Rand Araskog, chair-

gives the impression

of a man on a moral

crusade, which could

hardly be in sharper

contrast to the image

ITT projected to the world 15 years ago

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man of ITT, sometimes

the environment, as well as defence and state security. The first meeting of the Soviet of the Union on Satur-day proved to be a far more sober affair, in line with its less radical membership. An opinion poll at the weekend showed how Soviet citi-

zens have been galvanised by the public debate in the Congress - and how much more radical they are than many of their deputies The Institute of Sociology of the Academy of Science reported that more than three-

quarters of the adult population in Moscow, Leningrad and Kiev, and a remarkable 93 per cent in the southern republic of Georgia, were attempting to follow the live broadcasts of

the Congress continuously.

A second question in the poll showed that a large minority believe that the current level of defence cuts proposed by Mr Gorbachev -- Ralebn (\$15bn) or 14 per cent of the budget over the next two years - is inade-

AIDS: Spawning an epidemic of unconcern ....4 France: European pariiament election will be a fight for the middle ground \_\_\_

ent: Juggling with 850 per cent infla-

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NEW ZEALAND O NODERIA O CHAN O PARESTAN O PAPUA NEW GUNEA O GATAR O SNOAFORE O SOLOMON BLANDS O

STAIN O SULLANDA O STRIZERIANDO TARWAN O THALLANDO UCANDA O LINTEDARAS EMBRATES O LINTED KINGDOM O

LINTEDISTRIES OF AMERICA O VANUATU O ZAIRE O ZAIRBA O ZEBRASWE

### IRAN AFTER KHOMEINI

## Doubts cloud future for Tehran

### The government is vulnerable, Scheherezade Daneshkhu writes

meini's death came an awkward moment leadership. He meini's death came at for the Iranian leadership. He died just as the Government was publicly debating the question of who should succeed him, thus making the task exceptionally difficult for the men responsible for filling the

The qualified choice of President Khamenei, who is not high-ranking in clerical terms. as Khomeini's replacement appears to have been a precipitate measure taken at an emergency meeting of the Assembly of Experts, the 83-man body established to choose Kbomeini's successor.

The announcement will have been designed to end the uncertainties regarding the succession. Khamenei has been President since 1980 and is a respected figure who in recent years has appeared to support firmly Hojatoleslam Ali Akbar Hashemi Rafsanjani.the country's Majlis (parliamentary) Speaker and acting command-er-in-chief.

The move does not however. solve two fundamental and inter-related problems caused by the absence of Khomeini's dominant personality and unquestioned religious leader-

ship within the country.
One is the question of who is to hold effective, as opposed to titular, power in Iran. The other concerns the future of the Islamic state as an ideologi-

cal entity. When Ayatollah Khomeini occupied the position of spiri-tual leader, outside and above the realms of temporal power, the day-to-day administration of the country rested with the president and the Majlis, but khomeini's authority meant that the last word was always his. This dual power structure

has always been a problem. Without him at the helm, the

government is vulnerable. Aya-tollah Khomeini's designated successor since 1985, Ayatollah Hossein Ali Montazeri, who was forced to resign only 10 weeks ago, was accused by Ayatollah Khomeini and his son Ahmad of yielding to liberal and dissident tendencies.

Soon after his resignation, the authorities took steps to change the country's first Islamic constitution. A 25-man committee is now working on the constitutional revisions. A referendum approving these changes - as well as presidential elections - is due to be held on August 18.
Under Iran's constitution,

The qualified choice of Khamenei appears to bave been a precipitate measure designed to end uncertainties surrounding the succession. The move does not solve two fundamental problems: one

concerns who is to hold effective power and the

the country's spiritual leader is the representative of the twelfth Imam of Shiism who sappeared in the ninth century. As this representative, Ayatolian Khomeini ensured that his power would be extended firmly into the politi-cal and well as religious sphere. He has, in effect, ruled

with absolute authority.
Such absolutism has circumscribed the powers of the other five Grand Ayatollahs by pre-venting them from airing their views on the role of the spiritual leader. Ironically, this has led to a situation in which those who are qualified to replace Ayatollah Khomeini in religious terms have been effectively eliminated for political reasons.

Most of the Grand Ayatollahs disagreed with Ayatollah Khomeini over the degree to which the clergy should be involved in political affairs. Grand Ayatollah Shariatmadarl, a particularly vocal critic of the nature of Islamic rule under him, learned to his cost the dangers of dissent when he was stripped of his mantle of Grand Ayatollah before his death in the early years of the revolution.

Apart from Montazeri, who still commands significant support among the people, only Grand Ayatollahs Golpayegani and Marashi Najafi have participated in the Islamic Republic, although at some distance. Both sent messages of condolence broadcast by Tehran

Radio yesterday.
The spiritual leader must, by the terms of the constitution

other the future of the Islamic state be an "honest, virtuous, wellinformed, courageous, efficient administrator and religious jurist, enjoying the confidence of the majority of the people as

> Although Khamenei has been named as Khomeini's replacement, he appears not to have been given Khomeini's full spiritual powers: he was not referred to as the valie fagih (the vice-regent of the jurisconsult). Given the fact that the appointment also appears to be temporary pend-ing the constitutional changes, the whole issue of the spiritual leadership of the country is

The move may not solve the problem of dual power centres, but it does for the time being indicate a considerable coup by Rafsanjani since he and Kha-menei are political allies.Raf-sanjani is himself the only declared candidate for the August presidential elections. The role to be played by Kho-meini's son Ahmad, behind whom it is thought radical groups were trying to make a bid for power, is unclear.

From the end of last year. Iranians have been acutely aware of the problem posed by the lack of qualified candidates for the spiritual leadership. In several speeches earlier this year Khomeini alluded to the fact by hinting that adminis-trative and management abili-ties could compensate for lack of religious learning. Both Khamenei and Rafsanjani supported this position.

The option of abolishing the position of spiritual leader altogether is not an attractive one for Iran's clerics. It would undermine the ideological basis of the country's political

But if that step is taken and Iran is to be ruled by efficient managers rather than men chosen purely for their religious credentials, the question is bound to arise eventually as to why the country should be in the hands of the clergy in the first place. This will beg the question of how Islamic iran can hope to extend or exert its ideological influence over other Shia groups and countries in the future.

By choosing the President, the government has presented a united front in the early days of the post-Khomeini era. As Khamenei declared on another occasion: "The maintenance of the system is the highest aim' There were rumours yesterday that dissident groups in the Revolutionary Guards and in the provinces are attempting to take advantage of Khomeini's

It seems unlikely that the major ideological differences within the leadership will sur-face immediately. But the future is clouded by doubts



Khamenei: move to end

that Khamenei will be able to emulate the Ayatoliah who mastered the art of acting as the final arbiter. The possibil-ity that rival factions will be unrestrained remains therefore

The main battle lines are drawn between those, like Rafsanjani and Khamenei, who support the idea of a centralised administration and others. such as the Interior Minister, Hojatolesiam Ali Akbar Mob-tashemi, who would prefer the maintenance of a fervent revolutionary spirit in Iran, which would include diffused centres of power and a commitment to the export of revolutionary ide-

Rafsanjam's ideas appear to be gaining the upper hand. The proposed changes to the constitution - which are almost certain to give the President more tain to give the President more power - have been made at his instigation, and the Majlis is in the final stages of approving his plan to have the Revolutionary Guards absorbed into the Defence Ministry.

The Islamic Republic has had to face two major tests of

had to face two major tests of endurance. The first came with the humiliating acceptance of a ceasefire in the war with Iraq last year, a stepdown which was a bitter pill for Khomeini to swallow. The second and more serious test is the death of Khomeini himself and the uncertain legacy he has left his country.

# Clerics and politicians jockey for advantage

RANIAN clerics were quick to choose President Ali Khamenei yesterday to replace Ayatollah Ruhollah Khomeini, who died on Saturday, but they will sorely miss Khomeini's guidance. His vari-ous supporters and opponents, from radical clergymen to ambitious politicians, will be eager to make their mark.

Even in the final months of his life Khomeini was the undisputed leader of the Ira-nian revolution. He was called on to mediate in doctrinal and political disputes among his followers and to approve momentous decisions, such as the one which put a stop to the war with Iraq in August last

President Ali Khamenei, 49, is the new leader of the Islamic republic. He is constitutionally obliged to step down as President after two terms - hence the forthcoming presidential elections in August - and will therefore have all his time for the new job.

Khamenel, with his power base among the bazaar merchants, broadly agrees with Hojatoleslam Ali Akbar Hashemi Rafsanjani in supporting a moderate foreign policy and has backed him in his bid for the presidency in the August elections. The two allies are likely to be a powerful combi-

Unlike Rafsanjani, Khamenei has in the past tended to side with economic conservatives opposed to too much state intervention in the economy, although in recent years he has played down his bazaar connections and even advo-cated increased state control. After Ayatoliah Khomeini

himself, the canny and popular miniser, the tanny and popular Hojatoleslam All Akber Hash-emi Rafsanjani, 54, has been Iran's most powerful political figure, and there is every rea-

Khamenei's supporters and opponents will be eager to make their mark, Our Middle East Staff reports

son to suppose that he will try to remain so.

He is acting commander-inchief of the armed forces and the speaker of the Iranian par-liament, and he is so far the sole candidate for President in the elections to be held in

If, as expected, the President is given increased executive powers and the post of Prime Minister is abolished, Rafsanjani may join forces with Kha-menei or - if things sour between them — attempt to dominate policy-making at the expense of the spiritual He is regarded as a pragma-

tist in the West because he favours improved relations with the outside world as Iran attempts to rebuild its economy and because he apparently persuaded Khomeini to accept the Gulf war ceasefire. But he happily espouses radicalism when fighting domestic political battles and followed Khomeini's lead when the Ayatollah ordered the execution of Mr Salman Rushdie, the British author.

Among those jostling for position after Khomeini's death is his 43-year-old son Hojatoleslam Ahmad Khomeini, who is backed by the radicals and opposed to Rafsan-

As the Ayatollah's private secretary, he had unique access to his father and a corresponding degree of influence
- he is to read Khomeini's will but he is a junior cleric who lacked the necessary religious or political credentials to make

a lone challenge for the leader-

Ahmad Khomeini, once a keen footballer, has only periodically taken an active role in politics and has re-emerged as a force to be reckoned with in

the past two years.

A proponent of socialist economic policies and a champion of the poor, he has unofficially supervised state television and radio and the two large-circula-tion daily newspapers in Teh-ran, Etelaat and Kayhan.

Post-Khomeini Iran will be a test for Ahmad and it is open to question whether he will survive politically without his

father's protection.
Unlike Rafsanjani and Ahmad Khomeini, Ayatollah Hossein Ali Montazeri is a 66year-old Grand Ayatollah with strong religious credentials. A pupil and once a close friend of Khomeini, Montazeri was cho-sen in 1985 as his successor.

But he was forced by Khomeini to resign in March, accused of being duped by liberals and dissidents, and it was this which left the succession in turmoil until Khamenei was

Since then he has been engaged in a dispute, by correspondence, with Ahmad Kho-meini. In some ways a mildmannered man, Montazeri wanted the Islamic revolution to have a more human face and has condemned its worst

Hojatoleslam Ali Akbar Mohtashemi, the 43-year-old Interior Minister, is one of the most prominent hardliners in the Iranian government and is responsible for much of its security apparatus. He is thought to support Ahmad Khomeini.

As ambassador to Syria from 1961 to 1965, he was linked to the Lebanese Shia fundamen-talist group Hizbollah.

### West and Arab foes greet death with relief and trepidation

By Victor Mailet, Middle East Correspondent

AYATOLLAH Khomeini's have made life difficult for demise may be mourned by radical Shia Moslems, but the Western and Arab countries to which he tried to export the ideals of the Islamic revolution demise may be mourned by radical Shia Moslems, but the Western and Arab countries to which he tried to export the ideals of the Islamic revolution are greeting his death with quiet satisfaction, albeit mixed with trepidation about Irre's tree was liftle greef in the US, which has not forgotten how it agonised about the fate of 52 American hostages seized businesses seeking big contracts. Saudi-Iranian negotiations for the admission of Iranian pilgrims to Saudi Arabia for next month's pilgrimage to Mecca have broken down, and the Jerusalem, the Foreign Ministry said Israel hoped for an improvement in Iran's attitude to Israel and the West.

of 52 American hostages seized at the US Embassy in Tehran in 1979 until their release after more than a year in captivity. "With his passing we hope Iran will now move towards assuming a responsible role in the international community."

said President George Bush yesterday.
"We will carefully watch the

we win caratily watch the situation," a Japanese govern-ment official said. In Britain, the Foreign Office made no immediate comment and the author Mr Salman Rushdie remained in hiding from the death sentence for blasphemy issued by Ayatollah Khomeini before he died.

Japan and the West have been anxious to win some of Iran's oil revenues by taking part in post-war reconstruction projects, but Iran's political confusion and its reluctance until now, to borrow abroad

businesses seeking big con-

In most of the Arab world. the news of Khomeini's death was treated yesterday with the without comment and other Arab countries followed suit.

Arab states ruled by Sunni

Moslems, especially Iraq, Saudi Arabia, Kuwait and Bahrain, have long feared the destabilis-ing effects of Khomeini's Shia radicalism on their own Shia populations. In Beirut, Lebanese Shia

Moslems mourned the Ayatollah's death and members of Hizbollah made public declarations of grief in their mosques. "Imam Khomeini's death was one of the most devastations diseases to have struck the

was the or the most throat the ing disasters to have struck the Islamic nation," said Shelkh Mohammed Hussein Fadlallah, Hizbollah's spiritual guide. By contrast, Khomeini's opponents around the world were almost jubilant.

Mr Masoud Rajavi, leader of the People's Mujahedin, called Khomeini the "most notorious dictator of modern times" and called on Iranians to confront the régime with all available means. "This is a very impor-tant turning point," he said. "Iran is now in a state of extreme agitation."

Iranian monarchists, including Reza Pahlavi, the son of the late Shah of Iran, predicted

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# Deng passes into history with blood on his hands

The economic pragmatist praised in the West will be remembered now for mayhem, writes Robert Thomson

paramount Chinese leader, and a man very conscious of his place in history, has often said that "bloodshed" is a necessary tool in controlling opposition. place in history, has often said that "bloodshed" is a necessary tool in controlling opposition. The economic pragmatist who won accolades from the West for freeing the price of vegetables and encouraging small businesses will now be remembered most for the bloodshed of the past two days and the chaos that is to

S

come.

Today, - the Chinese Communist Party regards the hundreds of deaths and the clearing of Tishannen Square in Peking over the weekend as a victory against counter-revolution. The hard-line faction that won power from the more reasonable men in the party a

reasonable men in the party a month ago seems to feel it has taken the necessary steps to maintain control, and that the violence and bloodshed are However, there are still However, there are still among the party leaders men who will be disgusted by the violence; it is they who will be able to avoid complete disorder. The military, too, has been generally opposed to the use of violence to quell the pro-democracy protests. Last week, six of the seven military regional commanders refused work - having been founded to serve the people, it was called on to shoot the

people,
The hard-line party faction,
represented by Deng, Li Peng,
the Prime Minister, and
President Yang Shangkun, was
already hated by the public.
For the military, that haired is
a new thing.

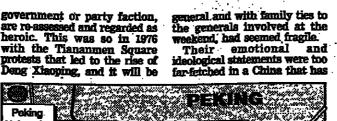
The foregoing respect for the military was shown in the Friday night farce when about 10,000 apparently unarmed peasant troops were sent on an ill-conceived mission to take Tisnammen Square. When they were turned back by the gathered masses, the soldiers were applauded, and given cigarettes and soft drinks.

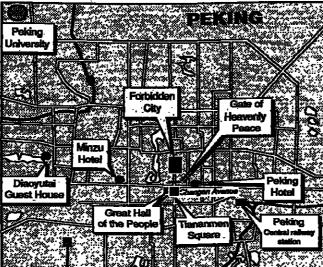
Yesterday, by contrast, protesters were throwing stones as the soldiers. stones at troops and there were unconfirmed reports of guns being distributed among youths in the west of the city.

There were also reports of troops firing at troops.

It is the way of modern Chinese history that student protest movements are condemned at the time, but, with the rise of a new

government or party faction, are re-assessed and regarded as heroic. This was so in 1976 with the Tiananmen Square protests that led to the rise of





so with the violence this gradually displaced socialist weekend. The questions are realism by unqualified realism in the past decade. Diplomats thought it could last only hard-line alliance of Deng, his elderly comrades of the Long March and, most important; Yang Shangkun, himself a gradually displaced socialist realism by unqualified realism in the past decade. Diplomats thought it could last only presumed that Zhao Ziyang, the purged party chief, could make a triumphant return.

In the short term, the violence will push the faction fight one of two ways, depending on the depth of support for the hard-liners. Deng and his friends could take an even harder line to control the inevitable outbreaks of unrest and lock themselves into the role of military dictators. Acts of violence will provoke acts of retribution will provoke acts of violence - and so on. Or, the more reasonable men will prevail and an attempt at reconciliation with the masses

will be made. That Deng has taken several weeks to dispose of Zhao as party chief is evidence that these reasonable men

The Chinese leader has been unable to stack either a meeting of the polithuro or the larger central committee to go Zhao, who is accused of conspiring against the party and allowing the spread of bourgeois ideas.

The depth of reasonableness is an unknown variable – the conomically reasonable Deng, for example, can be politically unreasonable.

The present leaders must be held ultimately responsible for a series of decisions born of a sense of insecurity that has

also led to the return to fashion of the fortress

News broadcasts and newspapers have returned to gross distortion for the sake of effect, although the Chinese are now better informed and know when they are being fed

In recent days, official coverage of the staged demonstrations supporting the "four cardinal principles" and other conservative ideas has been treated as a joke, albeit a sick one. One Chinese man said he would divorce his wife if she took the 20 yuan given to each of the "protesters" by local officials; she said that she would take the money and then quickly leave a march to

go shopping.

Effigies of the the dissident astrophysicist Fang Lizhi have been set alight by people who have no idea of who he is and by people who have difficulty remembering the cardinal principles. principles.
The long list of stupid

decisions, many made in the name of Li, starts with a harsh editorial on April 26 in the People's Daily, the party newspaper, which fanned a waning student protest movement. Then there was the hasty decision to impose martial law just over two

weeks ago - retired generals signed a letter opposing the declaration and, despite 200,000 troops on its perimeter, Peking went its own way.

After that came the decision to send in the peasant troops on Friday night. Judging by conversations with them, they had been deceptively briefed about the situation in the centre of the city. Most of those troops had jogged or marched for four hours to get to Tiananmen, so were hardly ready to face thousands of

protesters.

Then the avoidable carnage of the past two days. Illogical decision bred illogical decision. Yet the masses, offended as they have been and outraged as they now are, do not have the means to remove the hard-liners. The People's Liberation Army, or factions Liberation Army, or factions within it, has the means to do so; after the brutality and loss of face of recent days, it could have the inclination.

The military is split three

ways, with a faction supporting Yang and his relatives, a faction of older generals who disapprove of Yang, and a faction of more professional and technocratic generals who have risen to their rank on merit. Two of those three factions could oppose Deng and Yang.

who had been told to hold the who had been told to hold the rear, while the main force drove triumphantly into the square. As they approached the square from behind, they were palted with rocks, but kept jogging on, ignoring their mates felled by stones. They were obeying orders.

were obeying orders. Unconscious troops were then treated by the protesters who had stoned them; they were carried into houses, while those dazed and left behind were surrounded by residents, who repeatedly asked: "Why are you attacking the Chinese people? We are all Chinese Don't hurt the Chinese people." Chinese children are ple." Chinese children are taught to love "the motherland, the party and the army.
For the peope of Peking, much
of that love has been beaten

. As a red sun rose to the east of the city, and buses werestill ablaze, as far as one could see along Chang An Avenue, that hatred was turning passing middle-aged men and women intovolatile mobs. The windows of empty buses were ran-domly smashed, and the "great chaos" that has much obsessed paramount leader Deng Xiaop-ing in the past week had come

before the troops moved to

quell the demonstrations and assert the authority of the

Along with Mao Zedong.

reformists.

# protest in Hong Kong

**Thousands** 

in Hong Kong

SEVERAL hundred thousand demonstrators yesterday marched through the centre of Hong Kong for the third Sun-day in succession, parading a new-found political fervour which will change the mood of the colony as it prepares to return to Chinese sovereignty

Many of the marchers were black and white clothes, sym-bolic of death and mourning. They carried banners streaked with blood-red Chinese characters which called for the downfall of Li Peng, China's Prime Minister, and condemned "killer warlords" and an army

ple". There is to be a general strike (partial so as not to harm the local economy) on Wednesday, which has been declared a day of mourning and demonstration to perpetu-ate the cause of the crushed democracy movement of Tian-armen Servare.

have started calls for an economic boycott of Chinese organisations in Hong Kong, including withdrawal of funds from Bank of China branches.

Some senior political figures are to hoycott talks with China on the basic law under which Hong Kong is to be gov-erned after 1997, and there are also calls for the UK to intro-

duce full democracy in the col-ony immediately. These developments show that the events in Peking have had a direct impact on Hong Kong, where they have politicised a previously apathetic population and have strength-ened demands of leading liberals for the introduction of full universal franchise now.

"The British government should immediately introduce full democracy in Hong Kong, even if China does not agree, because the Peking govern-ment which negotiated the 1997 handover is no longer in power," said Mr Martin Lee, a leading lawyer and liberal campaigner. With another

### PM backs colony

Mrs Margaret Thatcher said yesterday she was shocked by the Chinese army's attack on students massed in central Peking, and vowed Britain would stand by its commit-

Hong Kong and admire their steadfastness in the face of these latest tragic events," she said in a statement. "Britain will continue to stand by its commitment to a secure future for Hong Kong. We are confi-dent that the Chinese government also will continue to abide by their obligation."

a memoer.

Mr Richard Margolis, UK
Foreign Office deputy political
advisor to the Hong Kong Government at the time of the When he launched the Cultural Revolution in 1966, it was essentially to reclaim the power he had lost. He suc-ceeded in that, but at the cost of plunging the country into bloodshed and chaos which lasted until the early 1970s. with Peking on the future of Hong Kong should be "put in

Members of the colony's executive and legislative assemblies are to meet this morning, but it seems unlikely there will be any mass boycott of links with Peking because of the need to keep contacts
Unilateral independence for
the colony, or the UK reneging
on the 1997 deal, are not regarded by officials as credible options because the sovereignty agreement is registered with the UN and because Hong Kong is economically and mili-tarily vulnerable to Peking.

However, talks on the basic law and other 1997 develop-ments will be delayed because of the administrative inertia likely to overtake Peking. The main indication from Peking that the British and Hong Kong governments will seek is one that the 1997 agreement will be fully honoured, including China's pledge that Hong Kong will be allowed a "high degree of autonomy" for 50

# 'Near me two youths crumpled'

A FEW workers and students stood on the fringe of Tiananmen, starting across at the mass of troops and tanks gath-ered under the portrait of Mao Zedong in readiness for the final sweep of the square. In a night of violence, of ebbing and flowing tension, this was one of the strange calm moments. There were bursts of gunfire, but, as was sometimes the case, the ammunition was not live, reports Robert Thom-

extreme brutality, we were all oddly complacent, chatting about the end, for now, of the democracy movement and the senselessness of the force used

sensusceness of the force used to crush it.

When the next round of gunfire began, there was no parist. Then came the sound of bullets hitting concrete blocks and the triplet in the littered the twisted-metal that Ettared the profestars left behind their square. Two youths crumpled shantytown of democracy and within a few yards of me. The the "goddess of democracy" — firing stopped. The youths lay the statue that had much

Peng were held.

What makes the situation

even more remarkable is that Deng has been the architect of China's economic reform, not planning the detail but at least

encouraging reformers such as the defeated part boss Zhao Zhiang and his think tanks to

But, when Deng saw how

economic reform seemed to lead inexorably to demands for

political reform, he called a

Since coming to power in 1978 Deng has had to balance the demands of the hard-line old guard with the need for

new policies to alleviate Chi-

ce liberating changes.

the core of pro-democracy protesters began singing the national anthem, competing with an official broadcast near the Great Hall warning that the troops had been called in to

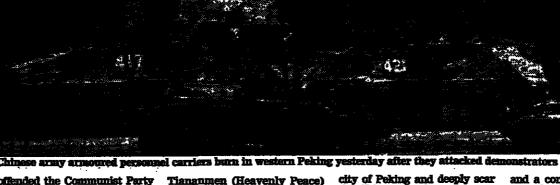
inconness.

I don't know whether they were dead. I only know they were hit, and, when their conrades carried them away, they were not moving — shot by the People's Liberation Army in the shadow of the Great Hall of the People.

In the heart of the square,

the troops had been called in to "suppress a counter-revolution". Soon after, more gunfire
— some live, some not — was sprayed into the students and workers, who took a quick vote and decided to walk slowly and with dignity out of the square.

After more than a mouth of demonstrations, surrounded by their own army, about 90,000 profesters' left behind their shantytown of democracy and the "goddess of democracy" —



offended the Communist Party elders — and walked under the banners of their university or the alogan-emhlazoned ban-ners. "The people's govern-ment should serve the people,"

Tiananmen (Heavenly Peace) that had become a battle-Panicky and inept Chinese

leaders had used tens of thou-sends of troops and, probably, hundreds of deaths to end what had been a non-violent ment should serve the people, was one message.

Then the tanks and what had been a non-violent proved showly drom the square, settled with a short conversation. The troops won no victone burning buses and one burning armouned vehicle cast a glow on the face of Mao. Zedong, which stared over a

city of Peking and desply scar the Chinese psyche.

One had to wonder, in the heavy blue of the early dawn as the murky figures of soldiers flooded into the square, how these troops had been briefed. Perhaps they were told that a small group of conspirators, the "blackhands" as premier Li Peng calls them, had somehow incited millions to "counter-revolution".

The main column, with 70 or so tanks and armoured cars, raw recruits, peasant boys.

and a convoy of troop trucks, was clearly told to use what-ever means to take the centre of the city - those means were bursts of machine gun fire into stone-throwing crowds, beating unarmed and retreating pro-testers with clubs, and a mass assault which left buses and trucks ablaze from one end of the city to the other.
Yet the troops entering from the south of the city were not

473

ment to a secure future for Hong Kong, agencies report. "I understand the deep anxi-ety presently felt by people in Ruthlessness grew as competence slipped at the top As Deng Xiaoping demanded, and got, protesta-tions of loyalty across China, it became only a matter of time France, West Germany and the US led the rest of the world's condemnation of the Xiaoping

events in Peking.

President Lee Tenghui of
Taiwan described the massacre
as "mad" and ordered his armed forces to be vigilant.

There was no official reac-tion from Moscow yesterday. President Mikhail Gorbachev, when in Peking about two weeks ago, praised the authori-ties' intended "dialogue" with the students. His warmest words were for Zhao Ziyang his counterpart as Chinese Communist Party leader, who now appears to have been

prominent liberal, Mr Szeto Wah, Mr Lee decided yester-day to boycott meetings of the Peking-based basic law draft-ing committee, of which he is

negotiations and now a local financial analyst, joined the demonstration. He said talks

Even in that period, China was still run essentially on the basis of personal enmitties and loyalties by Mao's wife Jiang Qing and her henchmen, the rest of the Gang of Four, who had risen to the top in the Cultural Revolution. Deng, who made a comeback in the early 1970s, having suffered badly in the Cultural Revolution, was dismissed again in 1976, not to return again until well after Mao's death, when there was a genuine demand for change. With this history of personal

again by the eruption of a It is tragic that the losers again are the Chinese people. The one hope is that the seeds of a modernised and open society have been sown widely enough in the past 11 years for them to sprout again when another Peking spring re-

A CHINESE COMMUNIST CHRONOLOGY

bad harvests; Mao retreats

IT SEEMS starcely believable that, 40 years after the present regime in China came to power dents in mid-May.

Yang Shangkun's younger
brother, Yang Baibing, is chief
of the army's political department — said to be the unit
which has been giving the
orders in recent weeks— and
Chi Haothan, the chief of staff,
is rumoured to be his
son-in-law. At the height of the
student protests two weeks
ago, the army high command and when for the first time in nearly 100 years, the country seemed on the path to modern; isation, the country should be on the verse of civil strife. The pro-democracy demon-strations of the past three weeks have shown the hate and contempt in which the three architects of the massaago, the army high command was labelled the "Yang Family cre, Deng Xiaoping, the Chinese senior leader, President (and ex-general) Yang Shang-kun and Prime Minister Li

The June 3 massacre crowns a

dents in mid-May.

mitted suicide.

The Peking Military Region was the last of the country's seven such regions to fall into line with support for the con-servatives. Two weeks ago Deng was reported to have made a quick trip to Wilham in central China to exact loyalty from the other six. Peking followed reluctantly

"They are suffering for us workers", said the crowds in the streets. "We have familles who are dependent on us, we cannot risk our jobs, but they are putting their lives on the line. They were welcomed for bringing a lost sense of morality back to what had become a shockingly corrupt political

Colina MacDougall charts China's long march from attempted widespread reform to bullets in the night

Peking followed reluctantly arena.
within a few days. However, in The question now is: will what is close to being civil this be enough? The Peking

the gradually increasing pros-perity of the country has been popular.

This prosperity is now under severe threat as a result of the extreme reaction of the hardliners, who will have driven away foreign investment, for-eign tourism and foreign loans.

Also, a huge question-mark now hangs over the future of Hong Kong.

Eight weeks ago all this

against the dismemberment of the country under the Treaty of Verszilles. troops, less to suppress the students than to effect a coup against Zhao and the other Pro-democracy demonstra-tions sparked by Hu's death culminated in a huge May 4 anniversary march to Tianan-men, though already the hardliners were presaging their

later toughness with accusa-tions that plotters were attempting to bring down the



Listen, Comrade! - urgent persuasion in Peking yesterday

turbulent 40 years of Madist communism in China, pro-claimed in Tianaumen Square in 1949, writes Colina Mac-Dongali: 1949: Mao proclams People's Republic of China. 1957: The "Hundred Flowers" movement - Mao encouraged free speech for a few weeks, then punished all who had spoken out against party abuses. 1858: The Great Leap Forward — Mao's disastrous mass mobi-lisaton movement to step up 1958: Foundation of Rural 1959: Inklings of disaster – failure of harvest and disputes with Moscow. 1960: Sino-Soviet, split — Khrhuschev withdraws Soviet

from prominence and collec-tive leaders headed by Liu Shaooi, aided by Deng Xiaoping: economic controls eased. 1966: Mao launches Cultural Revolution to regain power. 1967: Red Guard strife. 1969: Mao brings in the army to restore order and Red Guards banished. 1971: Coup plotted by army leader Lin Blao, who fied towards Soviet Union but his flight crashed in Mongolia. 1972: Premier Zhou Enlai, near-impotent during Cultural Revolution, regains some influence; Nixon visits China; Peking embarks cautiously on more open policy; Deng reemerges after five years. 1974: "Anti-Lin, anti-Confucins campaign": the Gang of Four attack Zhou under guise of

criticising Lin Biao.

1978: Deng comeback. 1979: Reform of agriculture, leading to abolition of com-mones. First legislation permitting foreign investment.

1860: Zhao Ziyang, protégé of Deng, becomes premier.

1861: Hu Yaobang appointed party leader. 1984: Party adopts urban economic reform programme intended to free enterprises from bureaucratic control. 1986: Student protests. 1987: Hu blamed for student protest and dismissed; Zhao replaces him and Li Peng appointed acting premier. 1988: Growth of inflation, cor-

vice for him becomes an anti-

leaders riot – "Tiananmen

ruption and speculation, runs on banks, panic buying. 1989: Death of Hu; student pro-

It had been unimaginable that China's leaders, however hated, could be brought down

However, among younger and more thoughtful people in China, there has been a strong constituency for reform. Despite recent grumbles about inflation and similar problems,

would have been inconceivable. While the economic reform was in growing trouble as a result of the hardliners' measures to clamp down on the high inflation of last year, the balance in the party between conservatives and liberals seemed temporarily sta-

This was suddenly thrown out of kilter by the unexpected death on April 15 of Hu Yaobang, former party leader, who had been sacked in 1987 as responsible for student protest in December 1986 and January

This came at a sensitive time, when Peking students were planning to mark the 70th anniversary of the May 4 move-ment, the 1919 student protest

students arrived in Tiananmen to begin a hunger strike to win a dialogue with the leaders to force them to retract the accu-sations of a student plot, and to agree to freedom of the press and an end to corruption and bureaucracy. When Soviet President Mik-

hail Gorbachev arrived for the surprising that China is faced Sino-Soviet summit on May 15, the supporting crowds in the square and on the streets had swelled to such hundreds of thousands that his programme was almost totally disrupted.

Already the leaders were engaged behind the scenes in a

naked power struggle.

ambition and intrigue, it is not

### na's powerty. The first major victim was party general secre-tary Hu Yaobang, in 1987. His successor Zhao had fought a losing battle to keep economic reform on the road. The power struggle among China's leaders during recent weeks has been matched by deep splits in the armed forces, important sections of which aid from China. 1961: Widespread starvation due to rash implementation of commune system and three were clearly not prepared to carry out a massacre of unarmed fellow citizens. It was the 27th Army which carried out the massacre. It is

seen as Yang Shangkun's own. lts men are older, tougher and evidently more ruthless than the country boys who made up the units turned back by Peking crowds the day before. Yang himself, now in his early 80s, has long military service behind him.

Yang was thought to have won the president's job in hagging with Deng when Zhao Ziyang, at that time Deng's protégé but now the ousted general-secretary of the Communist Party, was promoted to a key military post. Zhao has not been seen since his sympa-thetic public visit to the stu-

Village" in posters seen all over Peking.
Even so, the army has been seriously dismitted during this latest crisis. Qin Jiwei, Defence Minister and former com-mander of the Peking Military Region, has been widely reported sacked because of his opposition to Deng.

Two weeks ago, a group of elderly and once influential generals made public state-ments dismissing some of Li Peng's more extreme pronouncements and calling the student movement "patriotic". The commander of the 38th army, posted south-west of Peking, is reported as having refused to send his troops against the students, and was said to have resigned or com-

war, such loyalties will be severely tested.

The conservatives may have triumphed but it seems almost impossible that their victory can last. The protests started in Peking, and have had the most publicity being at the seat of government and the place where foreign journalists are concentrated, but almost all China's provincial capitals have been riven by demonstrations over the past few weeks against the hard-liners.

if they controlled enough mili-

tary might. In this situation,

though, the students were seen

as heroes by the people of

1976; Zhou dies. Memorial ser-

students have called for a general strike. Passions are running high enough in the capital for this call to succeed, but troops are still on the streets. Unarmed resistance is unlikely to be enough to face down one of China's most ruth-

less - and at the same time incompetent - groups of leaders. They have backing from many middle-rank party members and bureaucrats who see their sinecures threatened by the demands for reform made by the students in recent

Nine days later, hundreds of

power struggle. By May 20, when martial law was declared, Peking was already ringed with up to 200.000

# AIDS spawns an epidemic of unconcern

Familiarity with the disease is breeding an undisguised contempt for its effects

EVERAL thousand doctors, medical researchers and health administrators have gathered in Montreal this week for the fifth international AIDS conference, against a background of a rapidly increasing number of worldwide AIDS cases — and rapidly declining public interest in the disease, at least in Europe and North America. Despite intense research, no cure for the disease or vaccine to prevent it is yet in sight.

Politicians, journalists and the general public are currently showing less concern about AIDS than at any point since the first international conference in Atlanta in 1985, when the world was shocked into realising that the disease was a serious threat to public health.

"In the US there's now a familiarity with the disease which has bred an undisguised contempt for it." says Dr June Osborn, Dean of the School of Public Health at the University of Michigan. "I even have people saying to me: 'Your life must be becoming easier now that the epidemic is on the

"Unfortunately society is not dealing successfully with AIDS, but sweeping it under the carpet. The people whose business is to deal with the epidemic remain in awe of the

Experts are becoming more confident about estimating the size of the epidemic and predicting its future growth, as governments, particularly in Africa, stop pretending that AIDS hardly exists and begin to welcome medical assistance from outside. The World Health Organisation, which expects to spend \$90m this year on its Global Programme on AIDS, estimates that between 5m and 10m people are now carrying HIV, the virus that causes AIDS; 20m are likely to be infected by the year 2000. According to present medical knowledge, most of them will eventually die of

AIDS.
The number of AIDS cases officially reported to the WHO reached 152,000 last month, but the true total is believed to be at least three times as great. WHO projections show the number of cases reaching 1m by the end of 1991 and 3-4m by the end of the century.

ne end of the century.

Although the US has mu

the largest number of official AIDS cases - 90.000, of whom about half have died - the epidemic there is still confined largely to homosexual men and people who inject themselves with illegal drugs. In Africa, where the 23,000 reported cases probably represent less than one tenth of the real total, the vast majority have been infected by heterosexual contact or by their mother in the

According to the Organisation Pan-Africaine de Lutte contre Sida (Opals), based in

Those whose business is to deal with the disease remain in awe of the problems, Clive Cookson, Jimmy Burns and Peter Marsh report

Paris, up to 30 per cent of young adults and 15 per cent of children are now infected in some cities in central Africa. Dr Michel Rosenheim, Opals vice president, says the social effect will be devastating.

"AIDS is affecting the most healthy and productive members of society," Dr Rosenheim says. "It is not a disease of the poor like tuberculosis and malaria. The future leaders of these African countries are going to die of AIDS."

In most of Europe and North America the much feared "break out" of AIDS into the non-drug-using heterosexual population has not occurred. Although Europe as a whole remains about three years behind the US in the progress of the epidemic, different patterns are emerging in southern Europe, where the disease is concentrated among intravenous drug users, and northern Europe, where most victims are homosexuals.

AIDS is beginning to spread through the Caribbean region as a heterosexual epidemic on the African model. But perhaps the most disturbing new evidence comes from Asia, the continent so far least touched by AIDS. Tests on illegal drug users in Bangkok show that the proportion infected by HIV has risen from just 1 per cent in January 1988 to more than 50 per cent now.

Dr James Chin, head of the WHO's AIDS surveillance unit, says that the Bangkok figures should finally destroy the myth that Asians have largely escaped infection because they are genetically less susceptible to the virus. Since Bangkok is a centre for "sexual tourism," infection of the city's 50,000 drug users could spread AIDS

rapidly through the region.
Nations are divided as to
what social policies should be
adopted to deal with the disease. So are employers and
trade union officials, who are
having to deal with AIDS as a
labour relations issue.

Cuba stands out as the only country where the government forces AIDS patients to live apart from their families and friends in special sanatoria until they die. China last year strengthened local legislation making homosexuality, drug addiction, and prostitution punishable by lengthy labour re-education, as a way of combating AIDS. And mandstory testing is practised in a growing number of states and countries including Bavaria, Bulgaria, South Africa, Argentina, and the Soviet Union.

So far, the US and most west European governments have resisted draconian measures because of the political, social, and legal implications, quite apart from the unproven medical effectiveness of compulsory

testing.

Companies which openly declare that they screen potential recruits are the exception rather than the rule. Testing is for jobs in which AIDS could arguably affect performance and put public safety at risk. Examples are British Airways and Texaco, which have introduced screening for pilots and truck drivers respectively.

truck drivers respectively.

US employers who tried to solve the problem of AIDS at the workplace by firing those with the disease are now finding themselves on the wrong side of the law. Since 1986 an increasing number of states and several cities in the US have made AIDS a "protected handicap" so that a large measure of protection now surrounds the victim.

The issue of AIDS discrimination at the workplace has yet to be fully tested in European courts. However a report written by the international jurist, the late Mr Paul Sieghart, argues that a company which refuses a job applicant because he or she is suspected

says that the Bangkok figures of carrying the AIDS virus should finally destroy the myth that Asians have largely tional human rights law.

Last year in one of the first cases of its kind in the UK, a homosexual who was sacked because his colleagues feared he would give them AIDS won £2,000 damages in an out-of-court settlement, even though a court had earlier ruled against him.

On balance, however, most companies in Europe and the US are adopting a conciliatory approach which avoids such legal minefields and minimises disruption in industrial relations. This concentrates on providing information about the facts as far as they are known and laying to rest irrational fears about "catching AIDS" from contact at work.

Life insurance companies, on the other hand, argue that their financial health depends on discriminating against clients who are at risk from AIDS. Their attitude — and in particularly the way they have asked applicants about HIV tests — has put the insurance industry in conflict with the organised medical profession.

The only drug so far licensed by government authorities to treat AIDS directly is AZT (also known as Retrovir) made by Wellcome, a UK pharmaceutical company. But AZT, which is used by about 30,000 people around the world, is far from perfect. It causes unpleasant side effects, such as severe anaemia, in many AIDS patients and it does not claim to cure the disease but only to relieve some symptoms and

prolong life.

For the £70bn-a-year world drug industry, therefore, the challenge is to come up with a product that will improve on AZT. According to the Pharmaceutical Mannfacturers Association of the US, a total of 56 medicines designed to treat AIDS and the secondary infections which accompany it are now going through the various stages of the Food and Drug Administration's approvals

Designing an effective treatment for any virus is a formidable scientific challenge. Viruses work by infiltrating themselves inside human cells and hijacking the host cells' metabolic machinery to grow and reproduce. They are much more difficult targets than bacteria, which are independent

cells and can be killed by antibiotics without destroying the human cells around them.

The way HIV can bury itself in the genetic material of the cell and then suddenly burst into lethal action after a delay of several years makes it hard to attack, even in comparison with other viruses such as influenza and the common cold for which no cures exist. A "cure" for HIV, in the sense of eradicating the virus from the genes of AIDS patients, may not be achieved for several decades; but most researchers believe that they can develop a drug which is free of side effects and which suppresses

all symptoms of the disease.

Several anti-viral drugs now proceeding through the final stages of clinical trials look as though they might have fewer side effects than AZT. One of the most promising is dideoxyinosine (DDI), under development by Bristol-Myers of the US. Both AZT and DDI work because they mimic the chemical building blocks of the genetic material DNA.

The new anti-virals are likely to be used in a "drug cocktail" containing other medicines designed to stimulate the immune system and to fight the secondary infections such as pneumonia which afflict AIDS patients.

Developing a vaccine to prevent HIV infection may be even more difficult than finding an effective treatment. Some AIDS specialists say that the nature of the virus makes the quest for a vaccine hopeless.

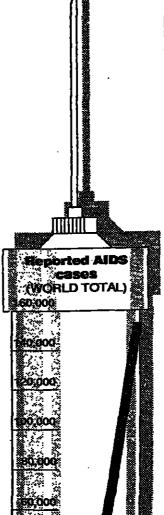
But 12 pharmaceutical companies are trying to develop an HIV vaccine in the US. And in the current issue of the journal Nature, a UK team led by Professor Jeffrey Almond of Reading University reports encouraging laboratory tests of a prototype vaccine based on a hybrid HIV-Polio virus.

Although AIDS victims are

understandably impatient that new drugs are not emerging more rapidly from the billions of dollars spent on AIDS research, the progress made since HIV was discovered six years ago has been astonishing. And, because of the crossfertilisation with other areas of medical research, future beneficiaries could include anyone who suffers from a virai illness

or even cancer.

The mood in Montreal, how-



1980 82 84 86 88

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ever, is far from triumphant. In the absence of a cure or vaccine, the only viable policy for containing the AIDS epidemic is to persuade the public to avoid risky sexual behaviour and stop sharing drug needles. That depends on a high level of media and political interest in the disease, and AIDS specialists who complained that journalists overwhelmed previous international AIDS meetings are worried that there may not be enough coverage this time.

# Turkish guerrillas leave 50 dead in spring offensive

By Jim Bodgener, recently in Diyarbakir, south-east Turkey

MORE than 50 people, including civilians, have been killed since early last month, as Turkey's south-eastern region has once again been hit by a spring offensive, launched by guerrillas of the separatist Marxist Kurdish Workers' Party (PKK).

The offensive has led to one of the strongest counter-insurgency sweeps yet mounted against them by the Turkish security forces.

The deputy governor of the region, Mr Nafiz Kayali, admitted in the south-eastern capital, Diyarbakir, last week, that attacks had escalated in recent days. But he said the incidence of terrorism generally had declined so far this year, compared with 1987. More than 1,000 people are estimated to have died since the guerrilla war with the PKK started in earnest in mid-1984.

earnest in mid-1884.
The terrorists, estimated to have about 300 hard-core fighters inside Turkey, have switched tactics from comparatively soft civilian targets — such as village headmen and rural militia — to direct

attacks on the security forces, or propaganda operations clearly aimed at recruiting more sympathisers, by playing on tensions between the emergency administration and the population, largely Kurdish.

However, Mr Kayali said the greater efficiency of the security forces this year better shielded the populace from the

population, largely Kurdish.

However, Mr Kayali said the greater efficiency of the security forces this year better shielded the populace from the PKK. Nor did there appear to be much co-ordination in the guerrilla attacks, judging by the losses inflicted by the security forces, he added.

Early in May, an attack on a coal mine was followed by a bus hold-up when four soldiers and a civilian were shot. On May 22, 12 terrorists were killed in the mountainous area around Eruh, among them four high-ranking PKK leaders, and reportedly one foreigner - generally believed to be a Syrian. Although Syria has ostensibly ordered PKK bases off its territory as part of a superficial rapprochement with Turkey, it is an open secret that PKK terrorists train in the Syrian-controlled Bekaa valley in the Lebanon.

# US purchasing managers' index shows weakness

By Anthony Harris in Washington

THE US purchasing managers' cindex, the most widely followed indicator of industrial sentiment, turned negative for

sendment, turned negative for the first time in 33 months in May, its Business Survey Committee said.

The index, at 49.7, was barely below the neutral 50 mark, but sharply down from its level of 53 in April, and fell below its recent low point of 50.4 in March. It has fallen

A 50 score indicates an equal weight of upward and downward expectations in a weighted industrial sample. At the same time, the purchasing managers' inflation index fell to its lowest level since 1886. The report indicates growth slowing to a 2.5 per cent annual rate, provided the index maintains its 1989 average of 51.9, Mr Robert Bretz,

from 57.3 since the end of 1988.

chairman of the committee,

said.

The inflation indicator showed a sharp fall in the proportion of companies expecting to pay higher prices, at 25 per cent, against a recent average of 40 per cent, while the number expecting to be offered cut prices, at 10 per cent, was twice as high as in recent months.

months.
Only il commodities were reported up in price during May, the lowest number for more than two years, and 10 were reported down — the

highest since July 1996.
On the output side, only the indicator of export orders, at 60 (down from 62 in April) remains strongly positive. The production index, showing current conditions, remains positive at 51.1, but was sharply down from April's 55.5.

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You know how early in the evening on ITV just after the National News has finished, another - and rather interesting - news programme comes on telling you all about what's happened in your area?

Well, you probably recognise one of these people as a presenter of that news programme.

> And it's equally probable you haven't a clue who the other fourteen are.

> > That's because at exactly the same time that your presenter is telling you all about the issues that concern

that's much more intelligible to the locals is '01-For London,' a weekly round-up of what's on and where to be for the arts-conscious in the capital.

Then there are our regional weather services. Every ITV area gets its own weatherman (or woman) with his or her forecast of tomorrow's highs and lows.

Finally, thanks to our complex but efficient networking arrangements, each regional company can make programmes for the entire nation to see.

television that these types of services will be squeezed out of mainstream viewing. (Or, even worse, disappear completely.)

Advertisers too value the present regional services. The system allows them to advertise on ITV and Channel 4 promoting products or services which are of particular interest to people

This regional system benefits each and every community by its broadcasts.

Not just by supplying regionally relevant

news, current affairs and entertainment, but by bringing jobs and training to the area. Recently the IBA carried out a far reaching survey into what you think about all this. Their findings showed that 90% of people wanted more not less

in individual areas.

regional television and, in particular, news programmes.

Yet what is the Government's attitude to regional programming?

In its White Paper it accepts that the regional basis of ITV is crucial, but fails to make clear how the current regions and their audiences are to be safe-

guarded, or how the costs are to be met in the fiercely competitive new era.

With the introduction of Channel 5 there will be another national channel.

> And the abundance of satellite channels (twelve already and at least five more to come) will all be either national or international in their programming.

This additional choice may be a good thing, but not, if to make way for it, highly valued services have to be jeopardised. To keep ITV

regional we need to be sure we can foot the bill.



(Most of which you've never clapped eyes on.)

you, the others are telling everyone else in the country what's been going on in the region

they live in.

It's a remarkably simple idea based on the premise that what's happening in Leeds or Littlehampton is of precious little interest if you happen to live in Cumbria or Cardiff.

The system has proved more than

popular. In 1988 the ITV companies produced 3,845 hours of regional news.

But 'current affairs' are by no means the whole picture. ITV also produces regional documentaries and regional arts

programmes, as well as a lot of regional sports coverage.

Last year Scottish Television produced a programme called Thairis Air An Fheasgar,' a Gaelic chat show. It's probably fair to say that Thairis Air An Fheasgar' would not have made it on

to national television. However, ITV's regional system enabled it to be shown north of the border, where it proved highly popular.

Another example of television

The result of all this is that 57% of ITV's home-grown output for the network is made outside London.

> That really is Britain talking to Britain?

With so many widely spread stations, the ITV system truly is rooted in the regions.

It would be much cheaper if ITV decided to operate from fewer centres than the current fifteen.

And cheaper still if it operated from just one.

But the range, quantity and quality of local programmes would be sadly reduced. Efficiency might win but many might lose.

> Voluntary organisations, for example, benefit from our fifteen main regional services.

The Samaritans were one of the first to make use of our community service announcements (CSAs).

This is air time given free to charities for short publicity films.

Like other voluntary organisations, The Samaritans are extremely worried that the Government's plans concerning the future of broadcasting will so alter commercial



**Brady** to

support

on debt

seek banks'

MR Nicholas Brady, the US

Treasury Secretary, is to press

banks to support his recent initiative to ease the Third

World debt problem today,

David Lascelles reports from

He is addressing 100 of the world's leading commercial and central bankers assembled

here for the annual Interna-tional Monetary Conference.

Bankers say they hope Mr Brady will provide further

details of the debt reduction initiative he launched in

Other issues on the agenda

### **OVERSEAS NEWS**

# French minister takes cautious line on capital liberalisation

By Guy de Jonquières, International Business Editor

THE FRENCH Government has indicated that it may be unwilling to meet its commitment to remove its remaining capital controls next year unless the European Community adopts measures to combat tax evasion.

Mrs Edith Cresson, France's minister of European affairs, said in an interview that her government would use its EC

presidency in the second half in which this liberalisation of this year to press for "guar-antees" against the risk of tax evasion on income from savings and investments.

Asked whether France would be prepared to go ahead with capital liberalisation even if it failed to obtain such measures, she said: "That is not France's position. France wants to have a discussion on the conditions could take place." She acknowledged that the French Government had given

a legal undertaking in Brussels a year ago to remove all capital controls in July next year, and that it had said then that it would not make its decision subject to any pre-conditions. "But at that time the situation was different," she said.

"At that time West Germany said it agreed to a withholding tax. So the situation has changed a little, and we shall

see what is to be done." Mrs Cresson said Bonn's recent decision to scrap its own withholding tax made it unlikely that the European Commission's proposal for a common 15 per cent withhold-ing tax would be adopted. The

proposal, which would have to be approved by all 12 EC governments, is also opposed by the UK and Luxembourg.

She declined to specify what kind of "guarantees" France wanted in place of an EC withholding tax, saying her government did not want to give away its position in advance of negotiations. She did not think the issue would complicate negotiations on economic and monetary union.

France has already dismantled unflaterally many capital controls. However, it still pro-hibits individuals from opening accounts in foreign currencies or with banks abroad.

further European integration. Mrs Cresson also described as "excessive" the recent criti-Monetary System. If it contincisms of the EC made by Mrs progress to monetary union. Margaret Thatcher. However,

the French minister expressed confidence that the UK would eventually play a full part in Mrs Cresson said other EC members had grown used to waiting for Britain to become a full member of the European ued to stay out of the EMS, its absence would not impede

# Walesa raises his glass to capitalism at Gdansk

John Lloyd on attempts to save the shipyard

T WAS Lech Walesa's name day on Saturday and a few old comrades, relatives, two US television networks and a Polish-American millionairess who says she wants to buy the Gdansk shipyard dropped by in the early evening for vodka and snacks. Those of the party who could speak Polish sang: "May you live a hundred years."

Mr Walesa has come a long way since the day in 1980 when he climbed over the wall of the Lenin shipyard to lead the strike which saw the founding of Solidarity and made him the most famous working-class leader since the Second World War. The party at his hig new villa in Polanki Street, in a pleasant suburb of Gdansk, was a kind of tableau of the contradictions and

responsibilities he must now shoulder.
As he finished welcoming his guests, a crew invited in) begged a brief interview on the eve of election day. Mr Walesa, the symbol of anti-communist revolt, said that he advised his supporters to vote for the leading national and Communist Party figures on the "national list" — the 35 names the Polish Government most wishes to be elected but who, under the Round-Table agree-

ment, must get at least 50 per cent of the vote.
The interview completed, he went inside once more to toast Mrs Basia Piasecka-Johnson, the Polish-American heiress of Johnson and Johnson whom he bumped into during the Corpus son whom he bumped into during the Corpus Christi procession in Piekary Slaskie, in Sik a mere two weeks ago. The two were introduced priest whose church of St Brygida has from 1980 acted as a refuge and a publicity centre for Solidarity; his version of events is that when Mr Walesa told her how worried he was about finding a buyer for the Lenin yard, under govern-

ment sentence of closure, she said: "I am here."
It sounds miraculous and was presented in that light by Mgr Jankowski in a sermon he gave in St Brygida's yesterday. Details, however, take longer than miracles: neither Mrs Johnson nor Mr James Whisenand, one of the three lawyers who attended her, would say more than that an outline agreement had been signed between Mrs Johnson the yeard manager. signed between Mrs Johnson, the yard manage ment and Mr Walesa, but that much further work remained to be done before a final deal.

However, at least one other company - Durainsil, an Anglo-Polish joint venture - has claimed to have an agreement to take over part of the

Mrs Johnson's late husband Mr Seward John son, has established an oceanographic company, the Harbour Branch Foundation, which Mr Whisenand described as "extremely successful". Wrisenand described as "extremely successful". Mr Whisenand said that the shippard project would add flesh to the speech promising support to Poland made by President Bush in April.

There was no doubting the enthusiasm with which she was greeted yesterday — Mgr Jankowski committed her, as she sat close to him in the shutch to warrier the Wall with a reduce.

the church, to running the yard with no redun-dancies: Mr Walesa, in a speech outside after Mass, appealed for those workers who had been laid-off or sacked to come back to join the 7,000 still in the yard and said that the first ship by under the new management would be called "Solidarity". Mgr Jankowski came back to say that "only the Communists could close the Gdansk Lenin yard: we will re-open the Gdansk

Piasecka-Johnson yard!"
The project, brilliantly presented as blending nationalism, capitalism, workers' rights and Catholicism, almost over-shadowed the elections

as the progenitor of a new era.

Outside the yard's main gate, by the Three Crosses memorial to the 28 workers killed during the 1970 riots, the Solidarity guide to the memorial picked up the theme of praise for Mrs Johnson, particularly because she will recognise Solidarity as having union rights. However, she

would, he said, fire all the Communists.

At a nearby polling station, as voters go in and out to the background cacophony of tuning up at Gdansk Music School, one voter at least had been confused by Mr Walesa. Mr Henryk Jezierski, a retired technician, asked the Solidarity man outside the door to identify Soli-darity members on the national list. There was none, he was told. "So why should I vote for them?" "You don't need to," said the Solidarity man. Puzzied, apparently a little fearful, Mr Jezierski went to vote in what might or might not be a new era, which might or might not contain the Piasecki-Johnson yard — but which, one way or the other, seemed certain to leave

### Mengistu in bid to end rebellion in the north

PRESIDENT Mengistu Haile Mariam, shaken by a bloody coup attempt two weeks ago, opens an emergency session of Ethiopia's parliament today, to debate ending the rebellion in the north, Reuter reports from

Addis Ababa. Analysts and diplomats said the meeting probably offered the last chance to seek a peaceful settlement to the 28-year rebellion in Eritrea Province.
"Mengistu knows that fail ure to have some kind of viable solution to the conflict would

cause immense problems for the country," one African dip-"But he is facing rebels who feel they can drag their feet."

During the coup attempt,
mutinous troops seized the
state-run Radio Asmara in Eri-

trea's capital, to broadcast statements aligning them-selves with the Eritrean People's Liberation Front (RPLF), which for the past 28 years has campaigned for the province's

# Bhutto brings in tough budget

By Christina Lamb in Islamabad

PAKISTAN'S six-month-old democratic government has presented its first budget, declaring 1989 a year of anster-

Ms Benazir Bhutto, the Prime Minister, left shortly afterwards on an official trip to the US and within hours of her departure, eight parties announced they had combined to form a joint opposition in parliament under the leader-ship of Mr Ghulam Mustafa

Jatoi, a politician respected by both army and establishment. Ms Bhutto admitted the budget was tough, but said it was necessary to put the economy on the right track. The last régime left us with millions of dollars in unpaid bills."

The new measures included

introducing new taxes, increas-ing user charges and slashing subsidies to reduce the fiscal deficit from Rs63.4hm (£1.9hn) to the Rs55.8bn or 6 per cent of GDP agreed with the IMF as part of a three-year \$1bn packGovernment spending has been cut while the defence budget has been increased 1.3 per cent, way below inflation of 11 per cent, though still accounting for 36.9 per cent current expenditure.

Sales tax has been imposed on 44 items, mostly construc-tion materials, in an attempt to hit smugglers who use their illicit earnings mostly on build-

However the measures were less harsh than expected after the IMF agreed to relax the pace of reform, causing dis-tress amongst the opposition tress amongst the opposition which had hoped to use its new-found unity to mobilise people in street protests, embarrassing Ms Bhutto in America. "It's not as tough as we had hoped," commented

One of the most controversial measures is a new scheme to legalise "black" money, which is said to be more avail-able than "white", and come mainly from smuggling of con-

traband and narcotics. Smug glers can now invest illicit earnings by paying 10 per cent as a fee, a scheme the government hopes will generate

The new government places much stress on privatisation and by selling off shares in government corporations for the first time, they hope to earn Rs1.5bn this year. They are also allowing six private investment banks to be set up. After intelligence reports that the opposition planned to cause unrest, Ms Bhutto set up a crisis committee to deal with any problems while she is

During her six-day visit to America, Ms Bhutto will meet President Bush to discuss the Afghan situation. The Bush administration has

recommended \$621m aid to Pakistan as part of \$4.020m six-year package, but Mr Bush has yet to certify that Pakistan does not possess a nuclear explosive device.

### include the present currency Argentine credit rating lowered

March.

ARGENTINA, torn by political turmoil and riots over infla-tion, has formally been declared value impaired by US banking regulators who have lowered its credit rating, Reuter reports from Buenos Aires. The decision obliges US banks to set aside specific reserves against their Argentine portfolios.

A foreign banker said he received the news late on Friday from his bank's US headquarters. The US Federal Reserve in Washington would not confirm the information and commercial banks in the US could not be contacted.

US bankers had been expect-ing the move because Argen-tina has not made any interest payments on its \$50hn foreign debt since April 1988. It owes its creditor banks \$3bn in unpaid interest.

### Swiss vote against peasant farms

A SWISS citizens' initiative in favour of peasant farms was defeated by the narrowest of margins - 51 per cent against 49 per cent — in a national referendum yesterday, William Dullforce writes from Geneva.

The proposal, which was opposed by the federal government and the Swiss farmers' union, would have switched the state's substantial agricultural subsidies exclusively to small family farms.

### SHIPPING REPORT

### Gulf business slackens

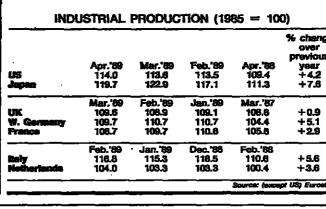
THE Middle Eastern Gulf saw a sharp fall in activity for large-size tonnage last week. Brokers, however, said this was not surprising bearing in mind that the Organisation of Petroleum Exporting Countries (OPEC) was due to meet this week to decide on production quota levels for the second half of this year.

of this year.
Rate levels did not appear to
have suffered despite the drop
in activity — probably because
of the underlying strength of

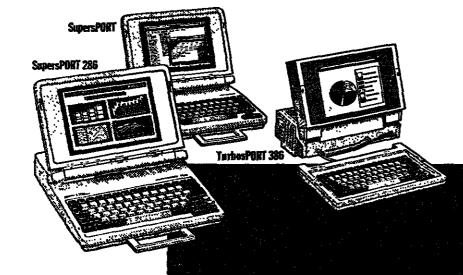
have been fixed for 260,000 tons from the Gulf to the West at between New World Scale 45 and 47.

Africa and records showed a very limited availability for tonnage at the "conference level" class.

In the North Sea, rate levels increased by about 20 points to NWS 147.5 for short haul voyages. Galbraith's said this was mainly because Brent crude was back on the system.



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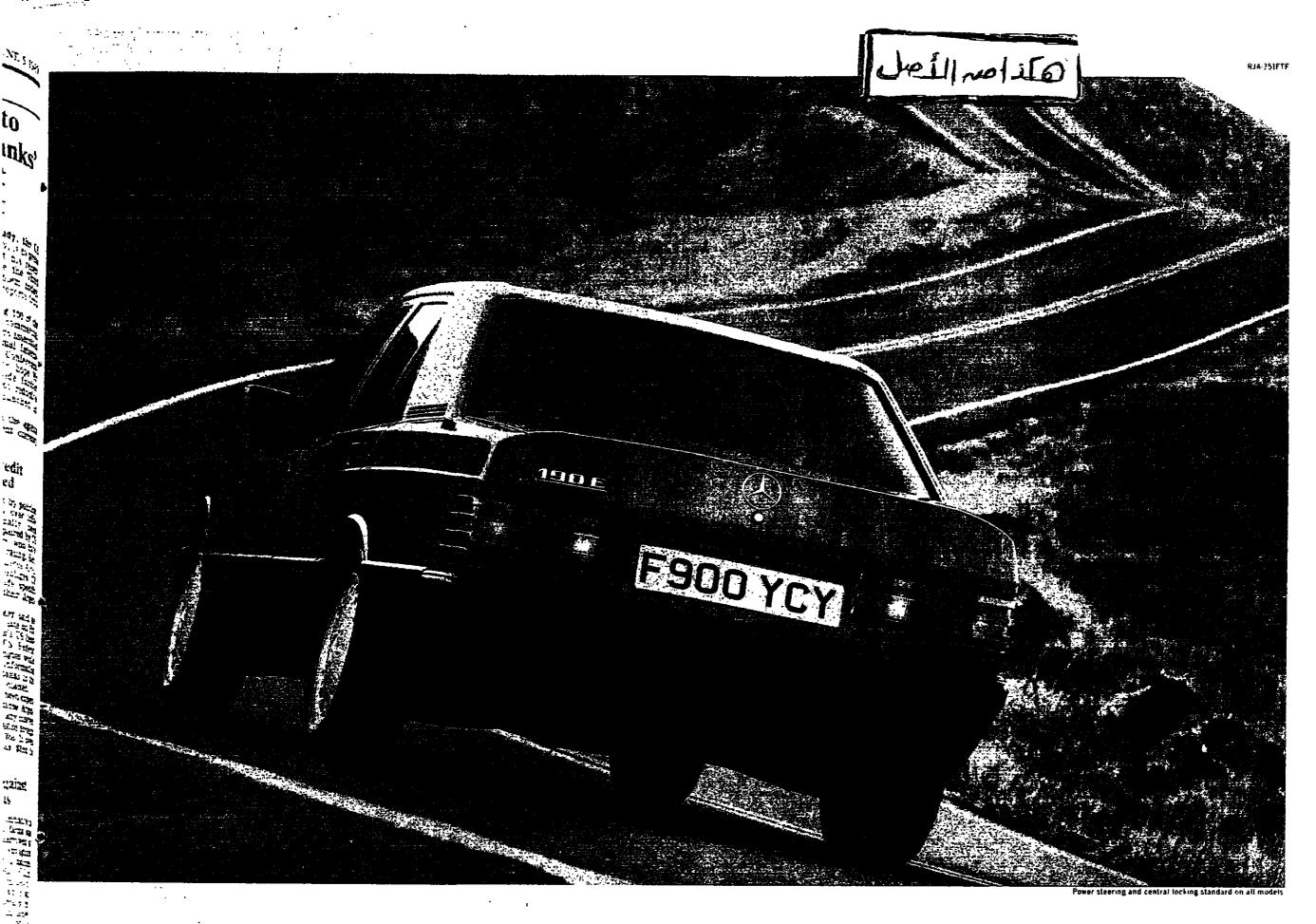
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the proof. Within the design strictures of a compact
four door, five passenger saloon it is one of the
most rewarding driver's cars ever produced.

With every mile you drive in a 190 your sense of security grows. The more often it demonstrates its capabilities, the more you appreciate the skill of its designers. As each month of ownership passes, you appreciate the car's tireless performance and perfect road manners.

### EVERY INCH A MERCEDES-BENZ

Although light in weight, the solidity of the 190's construction and its immaculate suspension system give it a ride more readily identified with larger, more expensive Mercedes-Benz cars.

In fact, if you didn't know beforehand, you would be hard pressed to tell which Mercedes-Benz you were travelling in.

The 190 is no less a Mercedes-Benz when it comes to safety. Unique electronically controlled front

With every mile it grows

on you



ENGINEERED LIKE NO OTHER CAR IN THE WORLD. seat-belt tensioners, a passenger safety cell with front and rear crumple zones and ABS anti-lock braking (an inexpensive option when not a standard feature)

are all integral parts of its safety engineering. This blend of mechanical

sophistication and traditional Mercedes-Benz practicality is available in six variations. From the 2 litre, four cylinder 190 to the 197 bhp, 190E 2.5-16 – the car that redefined the term 'sports saloon.'

### RELAXATION EVERY FOOT OF THE WAY

Every 190 is designed to minimise the stress .

of driving. All controls are ideally positioned and simple to operate. The instrumentation is uncluttered. Anatomically contoured, fully adjustable seats and an individually controlled heating/ventilation system keep each front seat occupant cossetted.

Whether steadily consuming mile after mile of motorway, manoeuvering a tricky S-bend or squeezing into a tight parking spot, the 190 has a superbly balanced system of complementary mechanical components: precise controls, uncanny handling, exemplary ride comfort and Mercedes-Benz reliability.

As you get to know your 190 it will grow on you.

In stature if not in size.

its controversial Super 301 clause which targets trading partners for possible retalia-tion, Mr Shigeo Muraoka, Jap-anese Vice Minister of International Trade and Industry, warned yesterday.

But Mr Muraoka also held

out an olive branch with the possibility of discussions within the multilateral General Trade (Gatt) to defuse any potential trade war.

He appeared to be returning conciliatory gesture by Mrs Carla Hills, the US Trade Representative, who earlier had indicated that bilateral 301

By Diana Smith in Lisbon

Government has announced its intention to de-nationalise

state-run corporations which were created in the 1975 revo-

lution. The de-nationalisation

will come as part of a far-reaching economic and

social programme.

De-nationalisation will begin

with the Unicer brewery, which sold 49 per cent of its capital to the public in April. Sales of a minority share of the

state corporation was a stop-gap until full privatisation

approved on June I by an over-whelming majority of deputies from the ruling Social Demo-crats (PSD), the Socialists, Christian Democrats and

Renewal Democrats: only the Communists and a few Greens

and independents opposed the

PORTUGUESE

Mr Muraoka and Mrs Hills were in The Hague for two days of biannual trade talks between Japan, the US, Canada and the European Community.

The "Quadrilateral Conference" is an informal gathering

designed to keep the four big trade partners abreast of each other's positions although no formal decisions are taken. Mr Muraoka was responding to the recent US targeting of Japan, as well as India and Brazil, for possible retaliation under Super 301 if unfair or

illegal trading practices are He outlined four other options which would stop short

administration has taken advantage of last week's dele-tion from the constitution of clauses and phrases that ban-ned de-nationalisation.

It has called for socialisation

of the main means of produc-tion and collectivisation of land and a subordinate role for

gramme which it launched at the weekend.

This coincided with the start of the two-week campaign for the European Parliament elec-

tions which the opposition con-siders a referendum on the

down to, or peremptorily pass-ing measures that affect the earnings or careers of, unions,

doctors, lawyers, engineers, bankers and businessmen, the

police, the armed forces and, as

This now is, thanks to sweeping changes in the Marxist-inspired 1976 constitution approved on June I by an overwhelming majority of deputies to has riled, either by talking

edical changes.

One wry commentator
Mr Anibal Cavaco Silva's observed, "everybody but the

seek mediation in Gatt.

Tokyo would ask a Gatt working group to determine whether Super 301 was consistent with Gatt.

The US would ask Gatt to set up a panel to investigate
Japanse trading practices.
The US would bring the bilateral discussions into the Uruguay round of Gatt nego-

• Gatt would initiate discussions between Japan and the

Mrs Hills, firmly defending Super 301 as a trade-opening measure, said there was no immediate change in positions but a good spirit. "If we have

old age pensioners."

The weekend's bumper bundle looks like a bid to regain status and give PSD candidates a boost in the June 18 election. Apart from de-nationalisation, it brings an increased national

minimum wage, sale of state-run farmlands to small farm-

ers, opening of state-run televi-sion to private enterprise and stimulus to private medicine.

There are also moves toward

simplified bureaucracy for

businessmen instead of the present red tape snarts, easier

mortgages, a fight on drugs, crime, poverty and illiteracy, and the creation of an eco-

nomic and social council where

private citizens may, in princi-ple, debate official policy with

The Government's plans for farming will replace a leftist agricultural reform that took

over estates and redistributed land in the mid-1970s. A new

law will fix frameworks for

embers of the administra-

JAPAN may file a trade under the multilateral Gatt of an official complaint and seek mediation in Gatt. to have retaliation then we have failed in our discussions and I don't like to fail."

The four trade ministers, including Mr Frans Andriessen for the EC and Mr John Crosble for Canada, sought to stress points of agreement on extending Gatt rules to inter-national investments, intallectural property rights and ser-

But it is understood that serious concern was expressed over Super 301's potential harm to the Uruguay round. It is feared that India, already considered balky about the Uruguay Round, will dig in its heels in opposing efforts to bring intellectual property

Anibal Cavaco Silva

rural development and the structures of land tenure,

allowing state-owned farms to be sold to small agricultural

# Canada and | Vote will be fight for

CANADA and the European Commission have pledged mutual "political will" to pre-vent their dispute over north Atlantic fishing from disrupting booming two-way trade between Canada and the EC that reached Ecus 20.5bn (\$21.47bm) last year.

Mr Frans Andriessen, the EC

external affairs commis said new Canadian evidence about possible over-fishing of the Newfoundland Grand Banks, lying outside Canada's 200 mile limit, "has to be con-

200 mile fimit, "has to be considered very carefully."

He said he could not prejudge the outcome of new planned talks between Brusses and Ottawa this summer, but confirmed the Commission's willingness to reach agreement.
The EC has complained that

figured large in last week's



quotas set by the North Atlan-tic Fisheries Organisation (Nafo) are too low, and Span-ish and Portuguese fishermen have exceeded these limits.

have exceeded these limits.

But Mr John Crosbie, the
Canadian trade minister, said
new evidence showed the
increase in cod stocks over the
past decade was not as great
as had been earlier estimated.

The wider impact of the new
US-Canadian free trade pact
stormed large in last week's

But Mr Andriessen con-cinded that "it would no more have a negative effect (on Can-ada's trade with the EC) than what we in the Community are trying to do with the Efta countries." Brussels and the six European Free Trade Association (Efta) countries are trying to negotiate a new eco-nomic relationship

### Brussels in pledge over fishing row

By David Buchan

play a secondary role in the French campaign for this month's elections to the European Parliament. and political integration. The central consideration for all the contestants is that the ballot on June 18 will be a test both in the struggle for the

centre ground of French poli-tics, and in the unresolved psy-cho-drama of the divided right European questions are unlikely to play a material role in the election, mainly because all the main-stream political-perties, from the Socialists on the left to the Gaullists on the right, now parade under a con-sensual banner.

Only the Communists on the

left and the National Front on the extreme right are funda-mentally hostile to the idea that the European Community and the Single Market are the path of the future. This apparent consensus across the broad middle

across the broad intention ground undoubtedly encompasses disagreements at both ends of the political spectrum. The official Gaullist conversion to the objective of a more political transfer of the political conversion. ically and economically integrated Europe is ostensibly unqualified at the top of the

But the conversion has been comparatively recent, and it is at odds with the traditionally nationalist notions identified with de Gaulle. Even some of the populist party barons, like Charles Pasqua, are manifestly more comfortable with the nationalist tradition than with the more modern overlay of liberalism and international-

The European attitudes of the Socialist Party represent a mirror image to those of the Gaullists. The left wing of the party is still imbued with the traditional French instinct for nationalism and intervention-ism, and is much less comfortable with the ideal of an economy driven by market forces than Prime Minister Michel Rocard and Finance Minister Pierre Beregovoy. But President Mitterrand

But President Mitterrand and his Prime Minister are committed to the aim of an economically and politically integrated Europe, and that is therefore official party policy.

The explanation for this veneer of consensus is that the parties have all gradually decided there is no alternative:

not merely to French memberof the European Parliament have been, with the Italians,

June 18 election, Ian Davidson reports from Paris among the worst attenders of the monthly plenary sessions; during the current five year Parliament, Mr Georges Mar-The consequence of the conchais, leader of the Communist Party, has turned up on only

sensus is that the campaign is being conducted with little reference to substantive policy issues. As one might expect, the Socialist platform places considerably more weight on the need for a European Social But Mr François Leotard, leader of the Republican Party, seems closer to the mark when

seems cooser to the mark when he says that "there is a general state of weightlessness, of disil-historment, in political opinion in France, where everything that is said has been heard before" Of course, the European Par-

French middle ground

'Europe' is unlikely to play a material role in the

liament is itself somewhat remote from policy choices: it has far fewer powers than a national parliament, and the elected members do not form anything resembling a govern-ment. As voting day comes closer, the policy debate on strictly Kuropean issues may start to liven up between the government and the opposition; but it would be surpris-

On the other hand, the run up to the election has been the arena for some fascinating manoeuvring by the political parties. The manoeuvring, and the outcome of the ballot, may not have great significance for the Community or for France's European policy.

But they may well have an important influence on the restructuring of the French political scene, and they are certainly being taken immensely seriously by the political parties — witness the prominence of the politicians who are leading their party campaigns.

The Socialist list, for example, is being headed by Mr Laurent Fabius, former Prime Minister and now President of the French National Assembly. The centrist list is headed by Mrs Simone Veil, the former conservative minister and one-

time President of the European Parliament, who has sometimes been described as France's equivalent of the Queen Mother. The joint Conservative-Gaullist list is being led by Mr Valéry Giscard d'Estaing, President of the Republic until his defeat by Mr Mitterrand in 1981.

The practical problems fac-ing Mr Fabius as the leader of the Socialist-list-makes his-choice something of a mystery. Notoriously, French members

three occasions.

Mr Fabius insists that he

will be an assiduous member in Strasbourg, though no-one quite knows how he will be able to combine it with his job in the National Assembly. Much more interesting in political terms is the face-off between the two conservative lists of candidates. At the beginning of the year, it looked as though all the various con-

se though an the various con-servative parties would join forces in a single list headed by Mr Giscard d'Estaing.

That was certainly the aim of Mr Giscard d'Estaing, as the elder statesman of the non-Gentlet conservatives and he Gaulist conservatives, and he seemed poised for a deal on these lines with Mr Jacques Chirac, leader of the Gaulists.

The plan faced the resistance of two recalcitrant political groups, however: the centris: CDS party, which has become increasingly assertive of its own independence within the

own independence within the conservative fold; and a movement of young dissidents on the right, who saw the opportunity to destabilise the entrenched party leaders.

In April, the young reformers threatened to launch their own list as a challenge to that led by Mr Giscard d'Estaing, and at one point, there seemed a chance that the reformers a chance that the reformers and the centrists would join forces with a single list, in opposition to the old-fashioned conservatives.

But the young reformers turned out not to have the stomach for a serious rebellion; within two weeks, their cour-age melted away, and they fell meekly into line behind Mr Giscard d'Estaing and Mr Chi-rac. The centrists were not to rac. The centrists were not to be cowed, however, and they launched a separate list of their own.

These quarrels seem to be playing against the interests of the moderate right, and in favour either of the Socialists or of the minority parties. A recent poll suggests that the Socialists will get 28 per cent, significantly ahead of Mr Giscard d'Estaing's conservatives with 25 per cent, while Mrs Veil's centrists look like making a respectable 14 per cent.
The extreme right-wing
National Front had a poll score of 10 per cent, the Green party

### ship of the Community, but to a European model based broadly on economic liberalism registering 12 per cent. Italian police seize copies of handguns

By John Wyles in Rome

COPIES of a Beretta handgun coppes of a Beretta handgun designed for collectors have been seized by Italian police after it was discovered that the Neapolitan Mafia, the Camorra, had been converting them into usable, and disposable, weapons.

The manufacturers, Nuova Mologra of Milan, are said to

Molgora of Milan, are said to be unable to credit that their light alloy copy of the Beretta 7.65 could be made capable of firing live bullets at an estimated cost of L30,000 (\$21,50).

Since the real weapon costs around L800,000 against some L130,000 for the collector's item, the latter is obviously attractive since it can be used once and thrown away, while repeated use of a normal weapon always offers the possi-

weapon always oners the possi-hility of drawing a link between crimes.

The discovery that the fac-simile was being used for crim-inal purposes was made by a Neapolitan police squad when, in search of drugs, it raided a

small workshop on the out-skirts of Naples in February.

There, it found two of the Milan company's products modified for direct action—subsequent discoveries sug-gest that the removal of a metal plug at the end of the barrel plus some modification to the firing mechanism was all that was needed

all that was needed.
Names police claim to have evidence that the Beretta copy has been used in more than once in Camorra crimes.

### **NOTICE OF** INFORMATIONAL MEETINGS

by

### AMERICAN MEDICAL INTERNATIONAL N.V.

### **Holders of Zero Coupon Guaranteed Bonds**

Due August 12, 2002

American Medical International N.V. on behalf of its parent company American Medical International Inc. is announcing Informational Meetings to be held at 12.00 pm on:

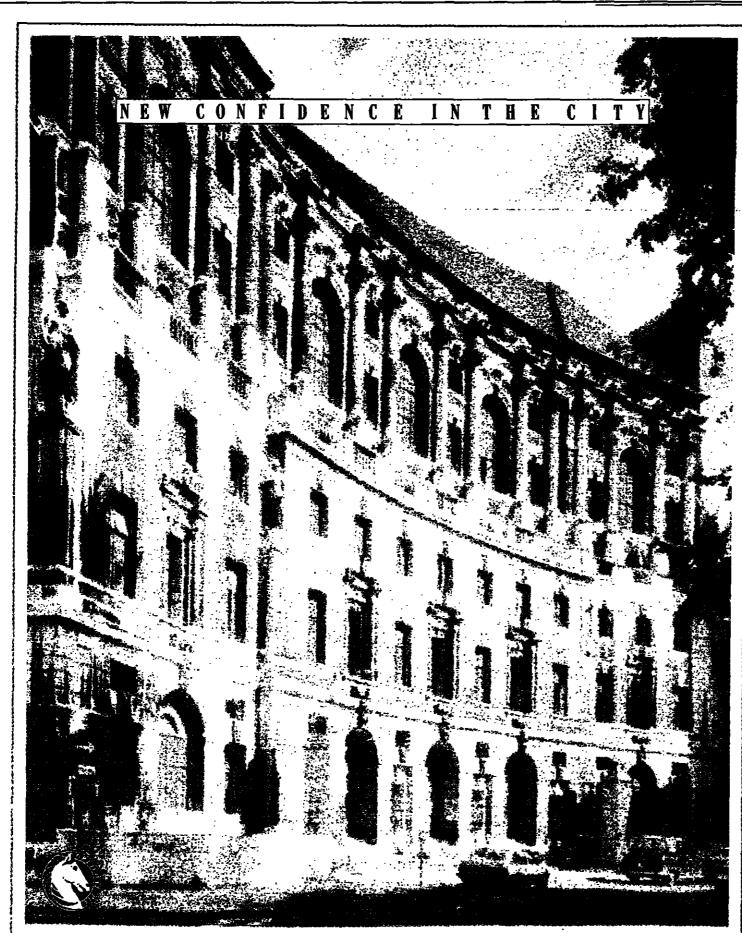
Monday 5th June 1989, Merrill Lynch International, Muhlebacherstrasse 25. 8024 Zurich.

Tuesday 6th June 1989 Merrill Lynch International 13 Route du Florissant, 211 Geneva.

for the purpose of discussing and answering questions in respect of the offer to purchase, under a Dutch auction procedure, its Zero Coupon Guaranteed Bonds due August 12, 2002 or, alternatively to make a cash payment.

The offers are made solely by the Information Statement and Proxy and Tender Form, copies of which will be available at the Informational Meetings.

The Informational Meetings will be conducted with the assistance of Liegey & Co., the financial advisor to AMI.



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merger relatively easy to

However the talks are likely

to be attacked by right-wingers

within both unions. The right within the TGWU is concerned that Mr Gill and Mr Arthur

Scargill, the NUM president,

left of the union movement, could come to play prominent

The MSF was created last year from a merger between ASTMS, the white-collar union

and Tass, the manufacturing union. Mr. Gill who was for-merly Tass' general secretary became MSF general secretary

last year after serving in the position jointly alongside Mr Clive Jenkins, the former

construction union

The EETPU now plans to

step up recruitment and merger activity within the energy sector. Mr Eric Ham-

mond, the RETPU's general secretary is keen to start talks with the Union of Democratic

Mineworkers.
The TGWU is also planning

to create a large energy section

through merger talks with the NUM, miners union, Nacods,

the pit deputies union and BACM the colliery managers

mion.

The AEU, riven by internal leadership divisions, is yet to develop a clear strategy in the wake of the collapse of talks

Talks between Nalgo, the

local government union and Nupe, the public services

union, could create a new public services union by the early 1990s, which could also draw in Cohse, the health service

with the EETPU.

roles within the TGWU.

nd

# Talks to open on big union merger

THE TRANSPORT and General Workers Union, Britain's largest union and MSF, the sixth largest union, are to open exploratory talks which could lead to the biggest merger in union history.
The two unions, which are

both on the left-wing of the union movement, have a combined membership of 1.9m. Should the 1.28m strong TGWU also succeed in merger talks with the National Union of Mineworkers, it could have 2m members by the early 1990s.

A TGWU-MSF merger would create a powerful left-wing union, able to represent all grades of staff within manufacturing and covering almost all sectors of the economy from finance to car assembly and public services.

public services.

MSF's strength among pro-fessional, technical and supervisory staff would complement the TGWU's base among man-

The merger plans will put

as the AEU engineering union and the GMB general union, to accelerate their plans to attract

other unions. The merger could also have considerable ramifications for the policies of the Trades Union Congress and the Labour Party on issues such as public ownership and defence. Both unions support unilat-

eral nuclear disarmament. A merger would provide the left within the Labour movement with a new power base, at a time when the right wing seems in disarray in the wake of the collarse of the collarse. of the collapse of merger talks between the AEU, and the EETPU electricians union.

The talks have been arranged following a letter from Mr Ron Todd, the TGWU's general secretary, to Mr Ken Gill, MSF's general secretary, proposing discussions aimed at developing a closer working relationship. working relationship.

MSIP's national executive,
which discussed the approach
at a meeting about 10 days ago,

has sanctioned Mr Gill opening groups covering different sec-tors, which should make a

The discussions will focus initially on developing com-mon approaches to issues of policy involving the Trades union Congress, the unions confederation, such as the proposed changes to the structure of the general council, on which both unions oppose proposals drawn up by Norman Willis the TUC general secre-

The two unions are likely to start collaborating much more closely in making bids for closely in making bids for union agreements on green-field sites such as the Toyota investment at Derby, in the English midlands, and the Bosch plant to be built in south Wales.

Senior officials of both unions believe these exploratory talks will quickly develop into discussions about a full scale merger.

a full scale merger.

The two unions have comple-

The conference of the GMB, the general union, will today discuss a proposed merger with the National mentary internal structures based on regions and trade Union of Tailors and Garment

# engineering set to deepen by 30%

By Nick Garnett and Terry Dodsworth

AEROSPACE products will be the only significant UK metalusing manufacturing sector to remain in the black in internaremain in the diack in interna-tional trade this year, accord-ing to estimates by the Engi-neering Employers Federation, the main body representing engineering companies.

The federation predicts that the nearting trade belongs in

the negative trade balance in all engineering products will worsen by 30 per cent, from a deficit of £8.9bn in 1988 to

£11.6bn this year. Economists at the federation estimate that most sectors of engineering, which range from computers and motor vehicles to rail equipment and heavy engineering will experience a significant deterioration in their trade balances through

Mechanical engineering, for the first time in recent history, will slip into the red, moving

By John Gapper,

Labour Correspondent

HUNDREDS of thousands of

HUNDREDS of thousands of jobs in British manufacturing companies are at risk because of managers' failure to plan for the Single European market, Mr John Edmonds, general secretary of the GMB general union, claimed yesterday. He said managers were "underestimating the effect of the Single Market by a very large margin."

the Single Market by a very large margin."
Today, the GMB conference is to discuss a paper that argues that 1992 will mean the unions' bargaining priorities may change dramatically.

• Mr Roland Long, a member of the Confederation of British Industry the employers' asso-

Industry, the employers' asso-ciation, called for companies

to accept worker participation in the Single Market pro-

The federation's projections are made despite its own calculations that engineering exports will continue to rise as they have done fairly con-

stantly through the 1980's. Engineering products last had a positive trade balance in 1982 – one of £2.3bn. It has deteriorated steadily since then except for last year when it more than doubled from the deficit of £4.2bn in 1987.

The biggest deficits last year were in vehicles and motor components (£6.1bn) and electronics and computers (£2.7bn). Aerospace equipment had a positive balance of £1.7bn which the federation expects to rise to £2bn this year. Laggards in the exports race, Page 20

### Warning Investment income 7% on job cuts of trade as 1992 approaches union total

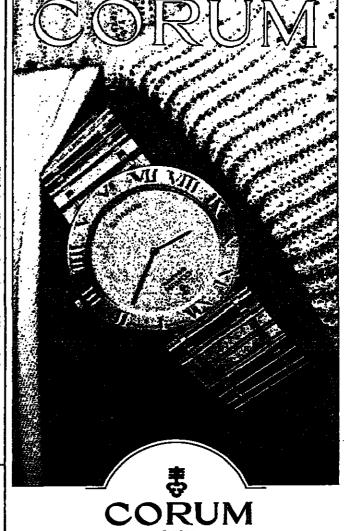
By Our Labour Editor

TRADE unions are drawing increasingly on income from investments to finance services for members, according to a TUC analysis of trade union finances published yesterday.

The analysis of trade union finances published yesterday. financial returns for 1987 shows that 79 unions with a

combined membership of 8.75m had a total income of £366m, or £41.77 per member. This exceeded total expenditure per member of £39.38.

Yet income from subscrip-tions averaged at £37.22 per ments and other sources was £39.8m, 7 per cent of total income, or £4.56 per member. Contribution income increased by 7.5 per cent to £325.8m, while investment income rose 2.2 per cent to £25.7m. Unions held assets valued at about £558m, or £63.19



INDIVIDUALLY MADE WITH A DEGREE OF SKILL AND CARE THAT BELONGS TO A FORMER TIME, CORUM WATCHES CARRY DESIGN INTO THE FU-TURE. THE ROMULUS EPITOMISES THIS WITH ITS ULTRA-SLIM SOLID GOLD CASE AND "ROMAN HOURS" WHICH ARE HAND ENGRAVED ON THE

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### CHEMICALS INDUSTRY

The Financial Times proposes to publish this survey on: 11 JULY 1989

**DENIS CODY** 

or write to him at

Number One Southwark Bridge

**FINANCIAL TIMES** 

### Pressure for consolidation intensifies

By Charles Leadbeater, Labour Editor

THE MERGER talks in prospect between the TGWU. general workers union and MSF, the general technical union, reflect the intensifying pressure on unions to merge, which could create a set of so-called "super-unions" by the early part of the next decade which would dominate the

union movement.

The decline in union membership has made it more diffi-cult for unions to support their infrastructure of full-time regional officials to support collective bargaining and recruit new members. In addition unions have been

attracted by the economies of scale which mergers should bring in offering financial and legal services, such as credit cards, discounted insurance and financial advice and

Changes in working practices, the growth of single union agreements, and the spread of new technology has blurred the demarcation lines between blue and white-collar staff and workers in different industries which have tradi-tionally provided the union's

ind

HOL

with their organising bound-

Political factors have also played their part. A TGWU-MSF merger would provide a new focus for the left within the union movement and the Labour Party, just as the aborted merger plans of the

The move will increase pres-sure on other unions to press ahead with merger plans.
The GMB general union is attempting to become the focus of a centrist bloc within the

Labour Party and the union movement.
Its recent merger with Apex,

Unions have been attracted by the economies of scale which mergers should bring in offering financial and legal services, such as credit cards, discounted insurance and financial advice.

AEU, engineering union and the EETPU electricians' union, would have created a focal point for the right-wing.

A TGWU-MSF amalgamation would put the merged union in The TGWU-MSF talks will

a position to draw in a range of other left wing unions such as the Fire Brigades Union, as well as smaller unions within transport and manufacturing. MSF would continue to pur-

sue its policy of amalgamating with small independent staff associations in the manufac-turing and finance sectors.

The first of the control of the cont

lapse of merger talks between the AEU, engineering union and the EETPU, electricians union, which are both on the right of the union movement.

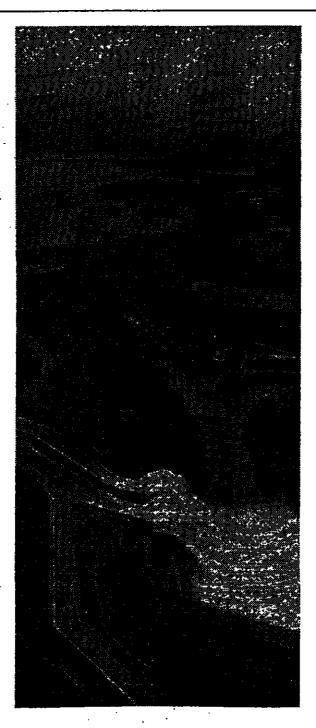
Had that merger been suc-cessful the 1.3m strong merged union would have attracted other unions such as Ucatt, the

start in the wake of the col-

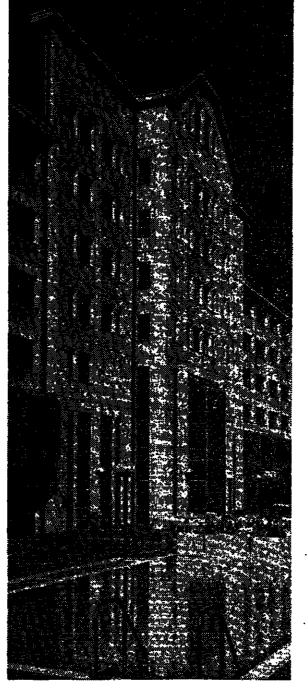
Meanwhile several unions in broadcasting, print and tele-communications are consider-ing mergers which could pave the way for a large communi-



For our own account we are planning and building the Trinity Tower USD 433 stillion. Building com expected to be in 1991.



The large, technically demanding Mrica dam and power plant project on Java became operational in March, 1989. Skanska acted as coordinator and sponsor for the project, which was carried out in consortium with ABB Generation and Balfour Beatty.



Scandic Crosss Hotel in Vienna.

We are building several botels for our own account in watern Europe, with Shandea Baugesellschaft in charge of construction and the Scandic Hotel chain responsible for operating the hotels. This hotel is a former grain warebouse renosated by Skanska into a first class conference and tourist batel.

hanks to a favourable economic climate and a deliberate concentration in recent years on quality, technology and personnel-development, 1988 turned out to be our best year yet in terms of profit performance. We have strengthened our position as one of Europe's leading construction and property companies, with a sound

financial base, highly developed technology and comprehensive know-how within the fields of construction and property management. We undertake bridges, tunnels, power stations, airports, highways, harbours and industrial plants. As well as hotels, schools, hospitals, office complexes, dwellings and shopping centres. We work in practically the entire world.

Our international property investments are developing favourably. During the course of the year, we have completed our own hotels in West Germany and Vienna. and the exciting Trinity Tower office complex in London is proceeding according to plan.

Group consolidated revenues increased during the year by 17.6% to USD 3,767 million. Income before allocations and taxes amounted to USD 294 million, 9.7% above the previous year. Sales outside Sweden amounted to USD 290 million. Return on capital employed amounted to 16.4%. Return on equity was 15.9%.

SKANSKA 1988 Consolidated Balance Sheet, December 31, 1988. In millions of Swedish Kronor (SEK M). Exchange rate: SEK 1,000 = USD 163.13 (December 31, -88) 28,938 LIABILITIES AND SHAREHOLDERS' BOUTTY 6.551 Current liabilities 30.047 Capital stock Reserves Net profit for the year Consolidated revenues 1988 - SEK 23,090 M



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### Residents rally against London road plans

By Rachel Johnson and David Churchill

THE TRANSPORT Department can be in no doubt that people do not want new roads in their backyards after thousands demonstrated their opposition yesterday to its plans to build new urban highways through

More than 4,000 people marched past the department's offices in central London to a rally in Hyde Park. The rally was addressed by Mr Jonathon Porritt, director of Friends of the Earth, an environmentalist lobby group, Ms Joan Ruddock, Labour MP, and others affected by the proposed road building

The demonstrators oppose schemes, known as the London Assessment Studies, which propose to redraw the road

map of London United under an umbrella group called All London Against Road Building Menace (Alarm), they say that, even as lines on maps, the plans for new roads are blighting 100,000 homes. They say those living in the broad corridors designated nated for improvements are having difficulty in selling their homes, and mortgages

are being refused. Alarm, representing at least 100 pressure groups, estimates that the studies' proposals will jeopardise the existence of 250 schools and about 5,000 houses

The studies, commissioned on the abolition of the GLC in 1984, were supposed to develop a range of options to relieve sympathy with the ALA and is new roads will reduce road very concerned that the casualty figures, which are

There are four assessment

EAST LONDON: Hackney, Islington, Tower Hamlets, parts of Camden and Harin-

WEST LONDON: South Circular Road from Gunnersbury to Wandsworth and Earl's SOUTH LONDON: A23 corti-

dor from Brixton to the end of the M23 south of Purley. SOUTH CIRCULAR: South Circular Road corridor from Wandsworth to Eltham.

transport congestion in four London zones - north-east, south, west and along the South Circular Road. The new road options were to take the pressure off "pinch points" of congestion and improve accessibility by opening up bottlenecks. However, so far the studies have resulted in little but opposition since the 40 options for improvements, half involving extensive road building, were made public last

The publication of the interim stage 2a reports inspired an unlikely display of common purpose between the Labour-controlled Association of London Authorities, and the Conservative London Boroughs Association, which are still

continuing in their alliance. The LBA says it is in broad

environmental issues." For example, some of the route options suggest new roads over the South London "green chain" - a continuous walkway of green spaces through Brom-

ley to the Thames. Some routes cut the green chain and drive motorway through it," said Mr Simon Randall, chairman of housing and works for the LBA.

Both organisations, together with Alarm, are campaigning to have the studies abandoned before the options for action become firm proposals in the summer, when the consultants are due to deliver the second stage, known as 2b.

Meanwhile, stage 2b is under preparation. The consultants are supposed to be conferring with local boroughs, transport operators and police. But the ALA says it is only attending the infrequent meetings to make sure the consultants are working with accurate data. The meetings, held at the denartment, were simply a matter of routine, and are now

suspended, it says.
In spite of the boroughs' wishes to see the studies dropped, Mr Paul Channon, the Transport Secretary, is to decide by Christmas which of the "wilder options" are to be ruled out and which are to be made firm.

The department argues that

studies show "scant regard for higher in London than anywhere else in the country. It says that campaigners, such as Friends of the Earth, are scare-mongering by putting out leaflets referring to proposed trunk routes as "motorways."

Mr Michael Goodman, leader of Hammersmith and Fulham council, says it is a "despicable and perverted" argument to use road accident statistics to justify building new roads which quickly reach overcapa-

city and become dangerous. Mr John Wakeham, a councillor at Camdon and chairman of the ALA's planning and transport committee, agrees that the road safety argument fails to convince.

"The way to reduce road traffic is to shift it to public transport, which is safer, but virtually ignored by these The authorities say they will never be convinced by the department's plans. "They are looking at building new roads

along areas of land where roads have never been in the past. Any new road needs to be justified," says the LBA's Mr Randall. However, the department

has already spent £7m on the studies, and is prepared to spend, at the outer limit, £3.5bn on building the new roads. It has a responsibility to support economic growth and industry by reducing conges-tion, and consequently says its plans are justified.



Placards say it all: demonstrators unite in Hyde Park vesterday to rally against government road plan

### Final Channon move to delay EC plan for heavier lorries

By Tim Dickson in Brussels

MR PAUL CHANNON, the of predicting the outcome of today's negotiations. Transport Secretary, will make a final attempt today to con-vince other EC countries that heavier lorries should be kept off British roads until at least

the late 1990s.

The EC Transport Council, which begins in Luxembourg this morning, looks like being his last chance to head off the proposal that Britain and ireland harmonise maximum lorry axie weights by the end of 1996 — a deadline at least two years earlier than what is thought to be acceptable to the

The issue has come to a head after agreements in March on common EC limits for two,

three and four-axled lorries. EC ministers at the time decided to postpone a decision on the timetable for introducing the limits in Britain and the Irish Republic — as well as on what to do about a previous British "grace period" for five and six-axle lorries.

The feeling among member states is that the matter must be resolved at this week's

Although a defiant Mr Chan-non appeared to be fighting an uphili battle in March, EC offi-

The Government has been lobbying hard to persuade others that a good 10 years of investment are required to strengthen British bridges – and longer in the case of those under the responsibility of

local authorities. There has been talk of a new compromise from the Spanish presidency of the EC, possibly as part of a deal with the

The axle weight issue is just one of several key items to be discussed at the two-day meet-

Proposals by the European Commission for a common EC breathalyser limit are likely to run into opposition from the UK. Germany and Denmark on the ground that the EC has no competence in the field of road safety. Several other member safety. Several other member

satety. Several other member states also believe the 0.5ml suggested limit is too low.

The plan to make it compulsory to wear seatbelts in the back of cars is also unlikely to find enough support this time. find enough support this time. The proposal, however, to harmonise minimum tyre tread depths at 1.6mm against the 1mm typical in most member states might squeeze through.

# NHS reforms 'stress cost not quality?

By Alan Pike, Social Affairs Correspondent

THE GOVERNMENT'S health care reforms envisage a trend towards a system in which "the dominant processes will be related to costs," the National Consumer Council

says today.
It is disappointing, the council says in a submission to Mr Kenneth Clarke, Health Secretary, that little mention is made of the counterbalancing need for incentives to improve

There was a danger that the responsiveness and compre-hensive nature of the National Health Service "may be undermined by a tendency to judge success in providing a service by success in meeting tighter budgetary constraints."

The council argues that the Government's proposals should be subjected to a few strictly controlled pilot studies, with the results published and widely evaluated. That reflects the position of the British Medical Association.

Although Mr Clarke has accepted that the introduction of the changes will be evolu-tionary, he says he will not allow pilot studies to become a weapon for blocking the

The council's fears about excessive concentration on the costs of health care are taken up in a pamphlet published by the Office of Health Economics today. It warns that it could be dangerous to produce more detailed NHS budgets based on

there is still too little information by which to judge the effectiveness and outcome of treatment

For the first 20 years after the NriS was founded, says the OHE, it was considered suffi-cient to justify the steadily mounting expenditure on the service by pointing to obvious increases in medical activity. without needing to assess the efficiency of that activity. Dur-ing the 1980s a quiet revolution had started to rectify that and introduce proper principles of economics and management

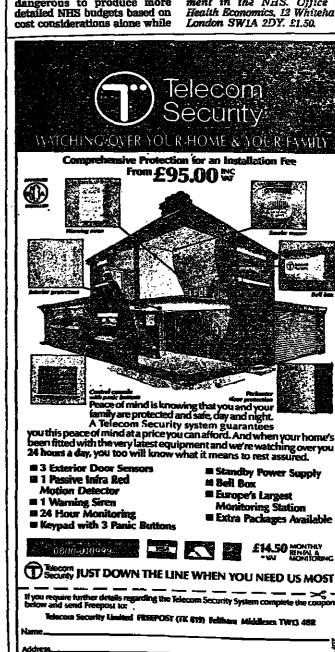
into the service.

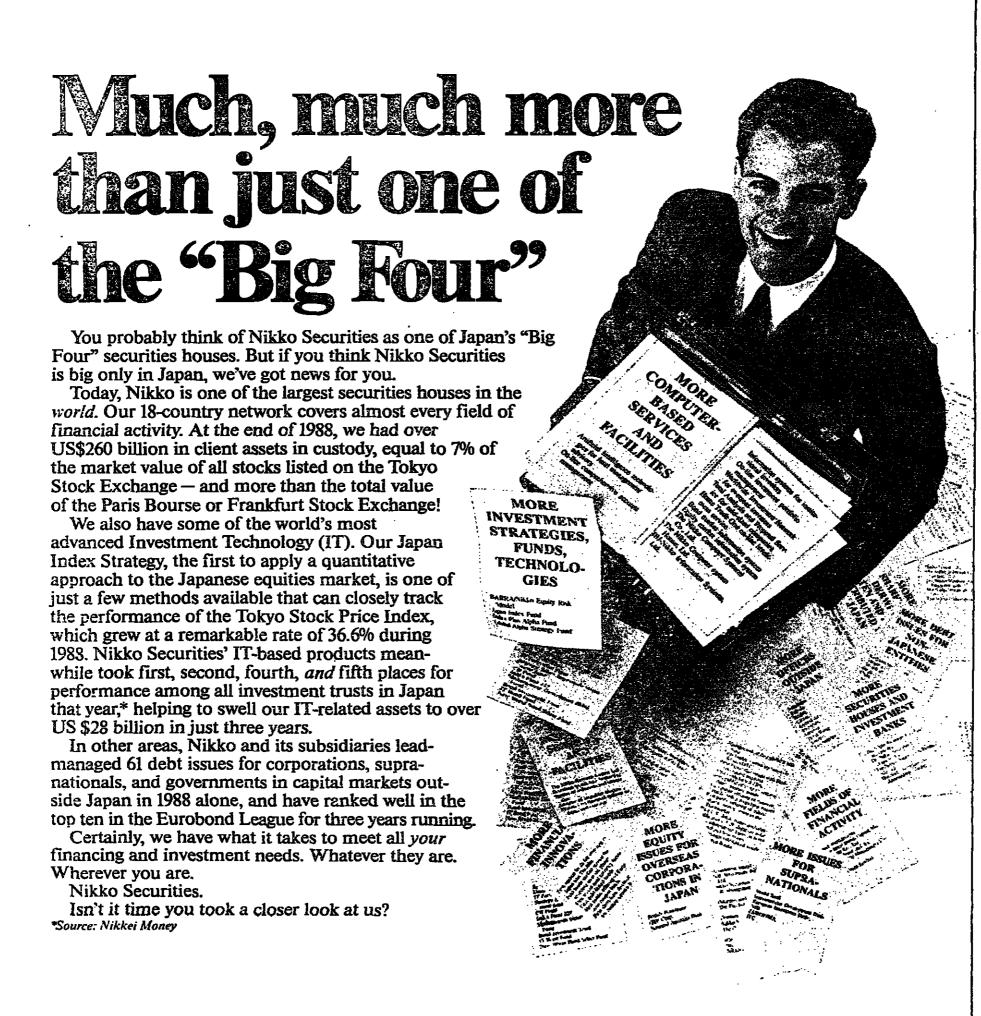
The white paper Working for Patients, in spite of the controversy it had generated, was no more than a further step in this overall process. There was still a long way to go before economic efficiency in the NHS

was generally achieved. Although the principle of trying to measure outcomes of treatment, rather than just the quantity of health care activity, was now well established, the methods for doing so remained at a tentative stage. More than anything else, says the OHE, time would be needed to overcome potential

difficulties. From that, it appeared that the Government's timetable for implementing its white paper proposals by 1991 or 1992 might

prove unrealistic. Measurement and Management in the NHS. Office of Health Economics, 12 Whitehall,







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Glasgow's Kelvin Hall International Arena, host to the 1990 European Indoor Athletics Championships, changed its central oil-fired boiler plant to a combination of gas boilers, direct-fired air handling units and storage water heaters.

The complex now has high efficiency heating and hot water, providing a better spectator environment and saving 30% energy.

While in the remarkable

2.2 million sq.ft. Metro Centre in Gateshead, Europe's biggest shopping and leisure complex, the use of direct gas-fired warm air heating and hot water is saving an estimated 50,000 therms

a year compared with an indirect heating system.

Not surprisingly, these companies were amongst the winners of this year's Gas Energy Management Awards.

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# Outhwaite makes £64m cash call to meet losses

By Patrick Cockburn

RHM Outhwaite, the Lloyd's underwriting agent, is to ask the 1.614 people who backed two of its insurance syndicates in 1962 for a cash call of 164m because of neavier-than-expected losses last year.

Mr William Bloxham, chief executive of Outhwaite, said the cash call was necessary because "a small number of very large contracts have deteriorated very significantly."

These, as in previous years, related to contracts written in 1982 which reinsured other Lloyd's syndicates. Those, in turn, had written policies in the US covering asbestos and pollution risks.

Explaining the escalation in forecast losses stemming from these contracts, Mr Richard Outhwaite, who heads the syndicate, said in RHM Outhwaite's annual report that the notification of expected claims received in February and March of this year were generally much worse than any prediction, however pessimistic, could have forecast."

He later confirmed to a press conference that he had raised his forecast of gross claims fac-ing the 1982 members of the syndicate 317/661 from £262m

to £304m.
The £64m sum was finally agreed on Friday at the second of two meetings that were con-vened last week between Outhwaite and 102 members' agents representing the Lloyd's members or "names" whom they had introduced to RHM Outh-

Names were being contacted over the weekend to hear

### **Managers** find share options lucrative

By Ciive Wolman

GRANTING share options to details of what they will be asked to pay. to a stock market flotation has At an earlier meeting, the become one of the most lucra-tive forms of tax-privileged remuneration, a survey pubmembers' agents had asked for a smaller cash call than the full £76m loss for 1982 recorded lished today suggests.

The 122 companies that joined the stock market in 1988 form the subject of the survey which was carried out by Mr David Cohen, a partner of the City solicitors firm Pals-

ner and Co. The survey shows that the price at which the shares were floated on the stock market was on average 2.3 times the price at which the options were granted to the managers a few months previously. In cases in which more time elapsed between the granting of the options, the average flotation price was 3.6 times the price at which the options

were granted.
According to the report, two According to the report, two managers made more than £1m in profit as a result.

They were Mr David Southworth of the microcomputer firm P & P, who made £1.63m, and Mr Colin Brooks of the property developers the Rockfort Group, who made exactly £1m.

Options on P & P shares were granted at a price of 12p in January and February 1987 and the shares were floated at 175p in April 1988. The options on Rockfort shares were granted at 23.3p in Octo-ber 1987

Employee Participation in Flotations. Paisner and Co, 154 Fleet Street, London EC4A 2DQ.

# Realities behind the greenhouse rhetoric

John Hunt on moves towards a world convention on global warming

7 ORLD Environment Day, which is being celebrated at the behest of the United Nations today, comes after a year when the sheer scale of the threat to the global environment suddenly seized the public imagination and spurred politicians

to action. Events to mark the occasion include seminars, award ceremonies and special TV and radio programmes. But cam-paigners who have been preaching the green message for many years will be trying to separate the rhetoric from the reality.

They will be assessing prog-ress in the battle against global pollution in a year that began with widespread seal deaths and the incident of the Karin B hazardous waste ship and ended with the huge Exxon Valdez oil spillage off Alaska.

There is no doubt that increased concern has led to improvements positioned in the control of the cont

improvements, particularly in international co-operation. In Britain, even the sceptics con-cede that Mrs Thatcher's celebrated conversion to the envi-ronment last autumn was a significant turning point. It has meant that the Government is under pressure to justify its environmental commitment every time a controversy

The ozone layer conference called by Mrs Thatcher in London in March has proved to be a launching pad for interna-tional action. The phasing out of chlorofluorocarbons (CFCs) which damage the ozone layer has been speeded up and the European Community and 80 countries meeting under the United Nations Environment Programme have agreed to end Programme have agreed to end their use by the turn of the

But the success of the London conference has led to a more important development which has attracted little public attention. We are now secing the early moves in the long process of drawing up a world convention to deal with the greenhouse effect of global warming - an immensely more difficult task than pro-tecting the ozone layer.

Britain's enthusiasm for a convention was first expressed by Mrs Lynda Chalker, Minister of State at the Foreign Office, in a keynote speech to the Lord Mayor's banquet in April. It was embellished recently by Lord Caithness, Minister of State for the Envi-ronment, at the governing council of Unep in Nairobi. Dr Mostafa Tolha, director of

Unep, is also pushing the idea energetically, although he envisages it developing into an environmental security council

with a policing role.
Differences of opinion are already emerging on how the issue should be tackled. In keeping with Thatcherite philosophy, Mr Nicholas Ridley, Environment Secretary, emphasises that the UK could not tolerate a body with supra-national powers and that there could be no overriding of

national sovereignty.

After some initial dithering. President Bush has agreed that the United States should commit itself to work towards an international convention.

The great difficulty in tack-

ling the problem of global warming srises because it is mainly caused by carbon diox-ide from carbon-based fuels such as coal, oil and, to a lesser extent, gas. The carbon dioxide and other greenhouse



Mostafa Tolba: council with policing role

from the earth. And the only way to reduce carbon dioxide is by cutting down use of such fuels, through energy-saving programmes or by adopting alternatives.

That means that Third

World countries such as China and India, which rely heavily on coal, will be in a particularly difficult position as they develop their industries.

The industrialised countries, retaining the countries, retaining the countries of the countries

particularly coal-using Britain, also face a dilemma in moving away from fossil fuels. Environmentalists see huge poten-tial in energy-efficiency measures and complain that the British Government has actually reduced its energy-effi-

ciency programme. On the other hand, they oppose an expanded role for nuclear energy, which is an obvious route to cutting back on fossil fuels. They were dis-mayed when the Downing St message from Mrs Thatcher's recent greenhouse seminar suggested that increased use of nuclear power was the way for-

There is also dispute over the international machinery to enforce a greenhouse convention. A group of 23 countries led by France, Norway and the Netherlands, meeting in the Hague, proposed a new world environment organisation backed by the International Court of Justice. But Britain boycotted the meeting and strongly backs Unep for this

The destruction of the tropical rain forests is another important cause of global warming but progress towards halting process has been disappointingly slow. Brazil outlined a plan to protect the Amazon rain forest earlier this ear, including a national fund for environmental protection. It was immediately criticised

as inadequate.
There has, however, been progress in other areas. An international convention to control transport and disposal of hazardous waste was agreed in principle by 100 countries at Basle in March.

The EC has acted as an engine of change. Tough US-style car emission standards to reduce polluting exhaust gases have been proposed by the Commission, to come into effect by 1983. Britain has said it will go along with that, provided the intermediate stage in 1991 is dropped.

There has also been adoption of the EC directive to reduce emissions of sulphur dioxide and situation and a from large

and nitrogen oxide from large combustion plants, mostly power stations. These substances are the main cause of acid rain.

pressure groups remain dissatified. They argue that a reluction generations to come.

tant Britain always has to be pushed into action by the EC on environmental protection. Greenpeace accuses the UK Government of being in breach of its obligations to the North Sea Conference by continuing to allow dumping of sewage

sludge at sea.

These charges are denied by
Mr Michael Howard, Minister for Water. Britain is not the main polluter of the North Sea, he says. Although responsible for half the coastline, the UK contributes only one fifth of the pollution and is reducing it. He says 95 per cent of Britain's rivers are in good or fair condition and that no other EC country can better

that record.

There was embarrassment for the Government when the Commons Select Committee on the Environment delivered a scathing indictment of its record on the disposal of toxic waste. This was rejected by Mr Nicholas Ridley in equally

scathing terms.
The Government announced plans for tighter control over local authority waste disposal plants and further plans for tougher regula-tion of toxic and other wastes. These will form part of a Green Bill which will be introduced in the next session of Parlia-

ment in the Autumn. The legislation is also expected to give teeth to the system

of integrated pollution control and the clearing up of litter. The bill's publication is eagerly awaited it will be seen as an important test of the Government's good intentions and whether it has lived up to Mrs Thatcher's boast that "We As far as the UK is con-cerned, the environmental friends of the Earth — we are

# Lloyd's is reluctant to back the rescue plan. According to Mr Bloxham: "Thus far they have not said they will get involved." Airline fights Prestwick stopover rule

By James Buzion, Scottish Correspondent

AIR 2000, the British charter airline, is returning to court to challenge new government reg-ulations requiring it to make a stopover at Prestwick airport on its flights between Glasgow

and Florida.

The airline has lodged a petition at the Court of Session in Edinburgh seeking a judicial review of the Government's Scottish air traffic distribution

rules, which compel transatlantic flights to and from Scotland to land at Prestwick.

Mr Bloxham said that Outh-waite was hopeful that the losses in some areas would

ultimately prove smaller than

He said Outhwaite's opti-

mism was based on an arbitra-tion award by Lord Wilber-force. Mr Bloxham believed that that meant that where the

insurer had sought to keep down costs by a voluntary agreement with clients over

how much money they were to receive, the reinsurer was not necessarily legally obliged to

He added, however, that although the final liability of

the syndicates might be re-ex-amined in thousands of cases,

RHM Outhwaite could provide

no hard evidence to the agency's auditors, Ernst and

Whinney, that final losses

would be reduced.
Outhwaite says it has agreed

with Lloyd's not to talk about a rescue plan for the 1,614 members of the 1982 syndicate

drawn up by Lord Havers. This is believed to involve a loan from Midland Bank being

paid into an account in Ber-

muda through C. E. Heath, the

insurance broker.
But the 28-strong Council of

had been expected.

meet claims.

Under the rules, Air 2000's flight from Glasgow to Orlando, Florida, has to fly 32 miles to Prestwick in Ayrshire before proceeding across the Atlantic. It takes on fuel at Prestwick and changes crew. The airline estimates that the extra stops at Prestwick add

three hours to the journey and cost an extra £250,000 over the

26-week summer period.
The new rules were introduced as Mr Paul Channon, the Transport Secretary, rejected a request by the British Airports Authority for a review of Pres-

Air 2000 in April won a rul-ing in the Court of Session that the Transport Secretary had

exceeded his lawful powers when he compelled the airline to make the Prestwick stopover under the 1986 rules. The Government did not appeal but brought in new rules.

Air 2000 is to argue that the new rules are ultra vires and that Mr Channon should not have introduced them without formally asking for Civil Aviation Authority advice.

# Bond group 'close to deal' on St George's

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And in Europe, we're the market leader in digital PBX and packet switching, working with national

In fact, we're at the forefront in exploiting digital technology. And now we're developing this technology

Northern Telecom. The power behind communications across 5 continents and in over 60 countries.

By Hazel Duffy

BOND Corporation, the financially troubled Australian conglomerate, is thought to be close to finalising agreement with a buyer for a half share in the St George's Hospital hotel and office development at Hyde Park Corner in central

Last month, Mr Alan Bond said that he was seeking joint-venture partners for the corpo-

ration's main property develop-ment assets, including the St George's Hospital site.

The group has been enga in large asset disposals in the last few months in an attempt to reduce its high level of bor-

Bond's acquisition of the site from Imry Merchant Develop-ers came in two stages, in Jan-uary 1988 it bought a 50 per

cent share. The balance was added six months ago as part of the plan to buy into the British property market through the acquisition of prime prop-erties. The purchase cost Bond Corporation £68.5m in total.

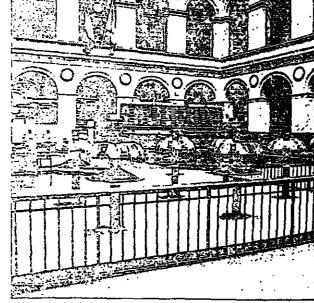
Imry Merchant Developers, in its annual figures reported last week, disclosed that it had made a net profit of £20m on its sale of the project to Bond. The potential buyer is expected to be an overseas consortium with the funds available to carry through the develop-

Work has already started to transform the old hospital, a listed building in one of the most prominent locations in London's West End, to a lux-

# Where do powerful ideas in communications come from?

# MORTHERN TELECOM THE POMER BEHIND COMMUNICATIONS

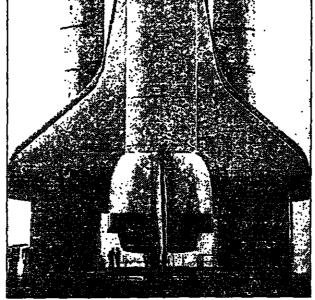




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# Howe will face questions on Soviet bugging claim

By Michael Cassell, Political Corresponden

SIR GEOFFREY HOWE, the view in Whitehall appears to Foreign Secretary, will this be that such skirmishing, week come under pressure from MPs to provide a Commons assessment of the latest state of Anglo-Soviet relation-ships. The pressure will follow allegations at the weekend that the British intelligence services have bugged London buildings used by Seviet diplo-mats and trade efficials.

Yesterday, Sir Geoffrey described the claims as "a rather amateurish" attempt at news management which

appeared to have failed. He added: "it is a manifestation of what we have come to call old thinking. There are certainly signs of old thinking persisting in parts of the Soviet administration. There are more encouraging signs in other

The bugging accusations were made by Mr Leonid Zamyatin, the Soviet ambassador to London, in the wake of the renewed wave of expul-sions involving British and Soviet officials and journalists. Coming less than two months after the successful visit to London by Mr Corbachev, the fresh accusations point to some further hardening of relationships between

which publicly endorses the need for continuing caution,



relationship assessed

does not necessarily have to be regarded as a serious, long-term set-back.

Mr Gerald Kaufman, the shadow foreign secretary, said

yesterday that the latest incidents had plunged Britain back into a "cold war" atmosphere with the Soviet Union. There had been a very regrettable

deterioration in Anglo-Soviet

relationships. He added: "I think if Mrs Thatcher were somewhat less strident, somewhat less belli cose, the Soviets would respond." Both sides, Mr Kaufman added, bore responsibility for the situation and both sides

had to respond.
According to Soviet officials, a number of listening devices were discovered in the walls of their trade mission in Highgate and in the West Kensington homes of several officials. A formal protest, calling on the British government to end what the Soviets called "provocative conduct", was deliv-ered to the Foreign Office. The allegations were at once

rejected by Sir Patrick Wright, the permanent secretary at the Foreign Office, after a meeting with Mr Zamyatin. He told the ambassador that the type of listening devices involved, described by Sir Geoffrey as "rather antique objects", were widely available both in Britain and the Soviet Union.

Yesterday, Izvestia, the Soviet government newspaper, added to the allegations by claiming that two people may have died as a result of radiation emitted by the high-frequency bugging devices.

# Labour will renew its offensive

By Michae! Cassell

LABOUR will this week renew its attack on the Government's economic strategy and attempt to expose what it sees as the continuing differences between Mrs Margaret Thatcher and Mr Nigel Lawson, the Chancellor.

Nigel Lawson, the Chancellor.

After a weekend in which
both main parties, as part of
the run-up to next week's
European elections, launched
increasingly personalised
attacks against their opponents' leaderships, Labour is to use its own Commons time on Wednesday to force Mr Lawson to defend his handling of the

Mr Neil Kinnock, the Labour leader, told an election rally in Manchester yesterday that the Government had destroyed British industry, unleashed a credit surge, encouraged

imports and was now deter-mined to give Britain "another clobbering" with the highest interest rates of any industrialised country.

With speculation still rife over the Chancellor's fate in the next ministerial reshuffle many of his cabinet colleagues still believe he is likely to remain in his present job until next year — Labour will again try to highlight differences between the Prime Min-ister and some of her senior ministers on monetary policy and membership of the European Monetary System.

The Opposition's attack on the Government's economic record was overshadowed last week by the controversy surrounding the angry reaction in a radio interview with Mr Kin-

nock, when he was asked to spell out Labour's formula for resolving the present economic

Mr John Smith, the shadow chancellor, will lead this week's Commons attack. Labour intends to attack the Government over its high interest rate policy and hopes that it can use the occasion to force the Chancellor to demonstrate his continuing differences with Mrs Thatcher over

economic strategy.

During a weekend of campaigning for the Euro-elections, Sir Geoffrey Howe, the Foreign Secretary, claimed that Mr Kinnock was unfit to be Prime Minister, while Mr Kinnock accused Mrs Thatcher of being unable to comprehend European unity.

### Montupet given £37m to set up in Belfast

By Hazel Duffy

MONTUPET, the French car components manufacturer, was paid £37.6m by the UK Government earlier this year to help set up its new opera-tion in the former De Lorean car plant in Northern Ireland. Montupet announced its intention to invest in west Bel-fast last December and the assistance was paid in the first three months of this year. It need not necessarily comprise the total package of aid agreed hetween the Government and the French company, which the Northern Ireland Office

refused to disclose. British Business, the Depart ment of Trade and Industry official magazine, lists the payment, along with others to companies in Northern Ireland, simply as "a first pay-

The De Lorean plant had been empty for years after the collapse of the US sports car operation. The Government is still trying to recover some of the money that it paid to De

It was a measure of the desperate need for jobs in west Belfast that there were no crit-ical voices at the time of the announcement, in spite of memories of De Lorean, Montupet said it would employ 920 people in the aluminium foundry making cylinder heads, mainly for Ford's new engine plant at Bridgend in South Wales. Another 110 peo-ple will be employed in a tool-room operation. Northern Ireland.

Northern ireland.

New facts on job creation in the province, to be published this week by the independent Northern Ireland Economic Research Centre, will show that jobs set up by locally owned companies have proved much more durable than investment attracted in from

Over haif the companies that moved into the province before 1973 have left.
Since the early 1980s, the Government has tightened up on the information and reporting procedure.

ing procedures required from anies receiving aid. Assistance in Northern Ireland is now all discretion-ary, as in the rest of the UK.

# Satellite TV slow to attract interest

making painfully slow progress in the UK, with the proportion of the population saying they will definitely join the satellite revolution actually declining, according to the latest Finan-cial Times Satellite Monitor.

At the end of May, four months after the launch of Mr Rupert Murdoch's Sky Televi-sion, an estimated 93,000 homes in Britain had their own receiving dishes, an increase for the month of May of just 12,000, compared with an installed total of 81,000 by the

end of April.

As the total of older disher of larger than 1 metre remains constant at around 30,000, that neans that the installation of the small 60cm Astra dishes has risen from 28,000 in March to 63,000 in May.

Mr John Clemens, managing director of Kennington Research, which interviewed more than 4,000 adults for the Financial Times last month, said: "The overall picture emerging is not encouraging."

The actual number of dishes

found in the sample - five large dishes and 11 small - is so small that the margin of error is probably plus or minus 20,000 homes. Kennington Research says it is confident, however, that the true number of homes receiving direct satel-lite broadcasts is between

SATELLITE television is MR RUPERT MURDOCH has dropped a lawsuit against the Walt Disney Company over its alleged refusal to launch the Disney Channel for children on his Sky satellite TV network in Britahu.

Sky Television, part of Mur-doch's News Corporation, said Disney was no longer obliged to start up the channel, which would have been Disney's first such overseas satellite ven-

The network had claimed in a \$1.5bn breach-of-contract suit, filed in Los Angeles Superior Court last month, that

70,000 and 110,000 - well under 1 per cent of all British house-holds.

At the same time, the num-ber of households saying they definitely intended to instal equipment dropped from the equipment dropped from the April high of 4.7 per cent to the February and March level of 3.6 per cent, or 773,000 households, a 23 per cent slide.

The drop, which was concentrated in the final two weeks of May, may have resulted from an bledter given to sathacks.

publicity given to setbacks such as the cancellation of Say Television's plans to launch the Disney Channel in the UK and the postponement of the rival satellite service from British Satellite Broadcasting until the spring. Pearson, publisher of the Financial Times, is a

Disney had refused to honour an agreement for the children's channel or reimburse its costs. Disney has said the suit had no merit.

Sky, announcing that it had agreed with Disney to dismiss the court action, said it would buy Disney's 50 per cent interest in the joint venture, including a half stake in another channel, Sky Movies. According to the statement, Sky Movies, which is already operational, will continue to serve as an outlet for Disney's Touchstone and Hollywood

Pictures films.

member of the BSB consor-"Enthusiasm now needs to be rekindled and public confu-sion allayed by singleminded marketing." Mr Clemens

argues.
"The opportunity exists for Sky now to do this as BSB is out of the market until the spring of 1990. This, plus the lead-up to Christmas, may pos-sibly give Sky the chance it needs to build up the market,"

Mr Clemens says.
With those who say they will probably instal satellite televi-sion some time added to the "definites", the total market potential now stands at 19.3 per cent or 4.14m homes. That compares with 18.2 per cent or 3.9m homes in Febru-

ary/March, and 20.4 per cent or 4.38m homes in April.
In addition to its four-channel direct service, Sky Television is available to a further 100,000 homes via cable television networks. If the expensive

older dishes are discounted. the market for Astra channels is primarily coming from the collar workers: the C2DS households of market research account for 70 per cent of total Astra installations to date. The AB professional and managerial groups, who make up 13 per cent of the population. account for only 6 per cent of the installed Astra dishes.

Regionally, there is a clear bias to the south and Greater London, which has 35 per cent of the population but 54 per cent of satellite installations. A comparison between the last two weeks in March, when the total market potential stood at 20.77 per cent or 4.4m homes, and the same period in May, shows that from May 15 to 28 total market potential for satellite television was down to

satellite television was down to 16.9 per cent or 3.6m homes. In May, 1989, Kennington Research, on behalf of the Financial Times, interviewed by telephone 4.065 individuals aged 15-plus. The sample was wrighted by age, social class, sex and tenure to be representative of the total GB adult poputive of the total GB adult popu-

### Long-term interest rates 'should be left to rise'

By Simon Holberton, Economics Staff

TO SUPPORT the pound and bear down on inflation, the Treasury should suspend its policy of fully funding the public-sector borrowing require-ment and allow long-term interest rates to rise, according to Greenwell Montagu, the UK

to Greenwell Montagu, the UK
gilt-edged broker.

Mr Roger Bootle, its chief
UK economist, says the current
economic situation "is so serious that the time has passed
for the arrogant or ideological
dismissal of policy options,
other than the ones currently
employed"

employed."
The Government's budget surplus takes money out of the economy and the full fund policy seeks to replace it by the Bank of England buying back from private investors and British government securities,

mostly gilt-edged stocks. Mr Bootle says that gilts pur-chases have artificially depressed long-term interest

The suspension of the full fund policy would have three beneficial effects, Mr Bootle

 Higher long-term interest rates would attract more stable foreign capital to finance Britain's current-account deficit and support the pound; Higher rates would absorb some of the liquidity of domestic institutions while weakening equity prices and raising the cost of capital;

Higher rates would prevent companies and individuals from avoiding the Chancellor's tight-money policy by borrow-ing long-term.

### Pay 'will increase faster than profits for 1-2 years'

By Alan Pike, Social Affairs Correspondent

PROFITS in the UK economy may rise more slowly than pay for a year or two, Mr Christo-pher Johnson, chief economic adviser to Lloyds Bank, suggests today. He says margins will be squeezed but will then

During most of the 1980s, profits have risen faster than pay. But pay caught up last year, with wage rises accelerating and profits slowing down to a growth rate of about 11 per

Profits per unit of output have been rising faster than labour unit costs during the 1980s after rising at the same rate in the 1970s, Mr Johnson says in the bank's monthly

economic bulletin. "The return on capital has risen since 1981 to 71/2 per cent,

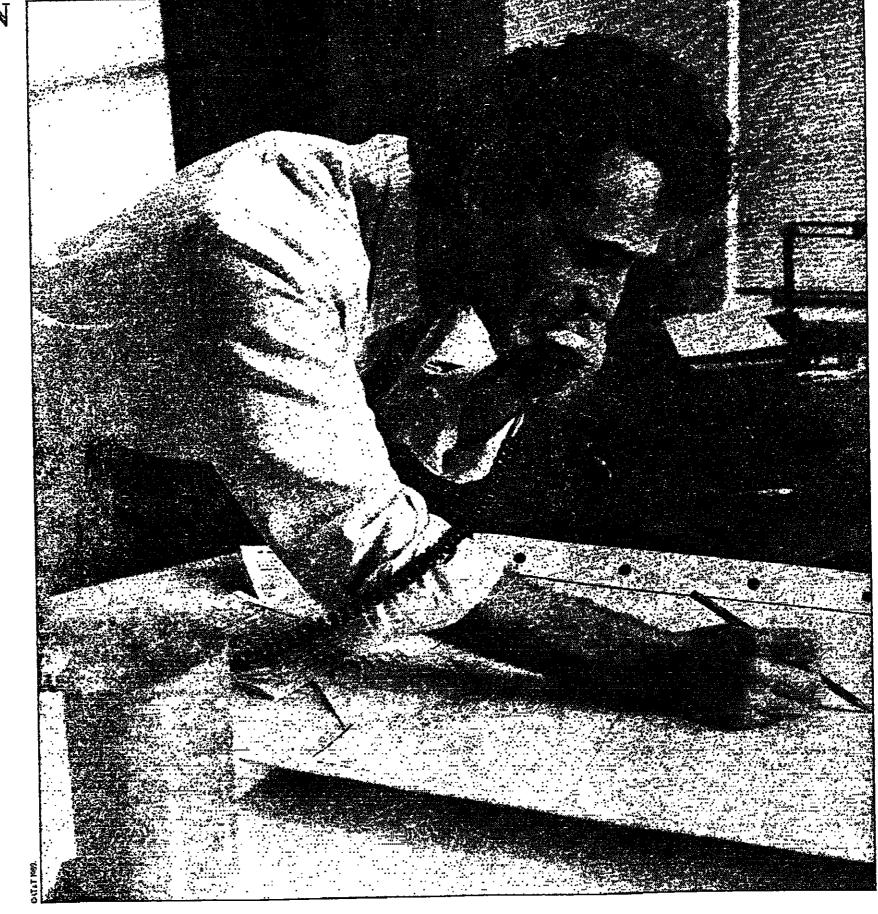
back to the level of the early 1970s, due in equal measure to the rise in the productivity of capital, and the increase in the share of profits in the national income," he says.

The UK's return on capital seeded to be further improved by continuing to raise the pro-ductivity of capital rather than the share of profits in the the share of profits in the national income. That would result in the earnings of both labour and capital rising faster, but at about the same rate.

Assumptions that North Sea oil supplies are rapidly running out are false and new discoveries and developments should been the IIK "self-suffishould keep the UK "self-sufficient for a good many years to come," says the June issue of

the Treasury's Economic Prog-ress Report.

HE'S NOT IN TEXAS.



### BUT HE'S OILING THE WHEELS IN HOUSTON.

"Doug? It's Brian. I just got the results of the drilling programme."

"Impressed?"

"Amazed!" "So were we. When are you back?" "Tomorrow First flight out. Hey, is

the old man happy?"

"What do you think?" "He must have begun to have his

doubts about me." "Who wouldn't after six dry holes!"

"I knew it was there. But I want to hear it from you. It's pumping how many barrels a day?"

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16

### **APPOINTMENTS**

### Prudential board posts

Mr Colin Southgate, chairman and chief executive of Thorn EMI, has been elected a director of PRUDENTIAL CORPORATION. Lord Hunt of Tanworth has been re-elected chairman, with Sir Trevor Holdsworth and Sir Alex Jarratt as joint deputy chairmen. Lord Carr of Hadley and Mr Desmond Craigen have retired from the board.

E HALL ENGINEERING (HOLDINGS) has appointed Mr Peter Wilkinson as managing director of Hall & Pickles, replacing Mr John W. Brass who has retired. Mr Jerry Troth is promoted from financial controller to finance director at Stadco.

☑ Mr David Morgan has been appointed company secretary of ROYAL INSURANCE HOLDINGS. He was deputy company secretary at Sun Life Assurance Society, and replaces Mr John Barber, who has been appointed assistant general manager (operations) of Royal Reinsurance. Mr Roy Randall has been appointed head of group corporate relations at Royal Insurance

☑ Mr Gerald Kaye has been appointed a director of LONDON & EDINBURGH TRUST. He is chief executive



SMITHS INDUSTRIES has appointed Mr Christopher Tay-lor (above) as financial director designate, to succeed Mr Alan Hornsby in mid-October when he retires. Mr Taylor was group financial director of William Collins.

ROYAL BANK LEASING. Cheltenham, has appointed Mr Tom Carr as sales and marketing director. He was senior manager in charge of special projects at Lombard North Central.

☑ BLUEBIRD TOYS has appointed Mr Paul Humphreys as managing director of Bluebird Toys (UK), and to the main board as an executive

M CAPEL COURT POWELL. Australian stockbrokers, has opened a European office in London, and Mr Roderick A.

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### Independent member for AMP/London Life board

Following the first annual meeting of newly-merged AMP/ London Life Mr John Sadler, recently retired deputy chairman of The John Lewis Partnership, has been appointed an independent member of the UK board. Mr Brendan McBride has been made London Life Fund

Chamberlain and Mr Bruce C. Hervey have been appointed

STEEL BURRILL JONES GROUP, following the offer for Devitt Group becoming unconditional, has appointed Mr Jeremy Davies, Mr David Forcey, Mr John Horwell, Mr Anthony Meacock and Mr Nigel Rice as directors. Mr Horwell becomes deputy chairman.

ES STIEBEL OF NOTTINGHAM, part of the Tootal Group, has appointed Mr David Smallridge as



Mr Seamus Kehoe (above) has been appointed sales and marketing manager of the General Practice Finance Corporation, recently acquired from the Government by NORWICH

actuary. Mr Andrew Wakeling, financial controller of London Life, transfers to AMP New director. Zealand in September as deputy chief manager. Mr David Anderson, chairman

■ Mr Alan Paterson has been appointed regional director of BALFOUR BEATTY HOMES (SCOTLAND). He was technical manager.

AMP principal board, retires

be succeeded by Sir James

Balderstone.

at the end of January, and will

☑ Dr John Marriott has been appointed a director of COURTAULDS CHEMICALS, with special responsibility for pharmaceuticals. He was research manager, and is succeeded by Mr Paul Law, who was a group manager.

Mr Patrick Howard has been appointed to the new post of director, gits and institutional coverage, NATWEST CAPITAL MARKETS, from June 12. He joins from Panmure Gordon, where he was director, gilts

■ Mr Peter Rose has joined CITIGATE COMMUNICATIONS as a director, corporate division. He was deputy director of information at the Home Office.

■ Mr Lindsay Mackinlay, who was an executive director of Rowntrees, has been appointed a non-executive director of STEETLEY. Mr John Kerridge, chairman and chief executive of Fisons, retires as a

Mr Bill Gissendanner has been appointed to the group board of ELLIS & EVERARD. He is chief executive of the group's US operations, and will continue to be based in Atlanta, Georgia.

■ NATIONAL BANK OF KUWAPP has appointed Mr George Dennis to head international fund management in London, and to oversee the operations of its two European-based investment management subsidiaries as managing

Mr T.L. Smith has been appointed managing director of KILLBY & GAYFORD (HOLDINGS). He will continue as managing director of Killby & Gayford (Building).

HAYS MARINE SERVICES has appointed Mr Duncan Hempstock, managing director of Crescent Shipping, as assistant managing director. He is succeeded by Mr Alan Petrie. Joining the board are Mr John Tait, as technical director, and Mr Sid Cass, who becomes managing director of Crescent Wharves.

### Corporate finance advisory post

Mr Miles Emley is joining the corporate finance department of UBS PHILLIPS & DREW in London as a managing director, writes David Lascelles Banking Editor. Mr Emley who was formerly with Roths-childs, will be head of UK cor-

childs, will be nead of the cor-porate finance.

The appointment marks a further stage in UBS Phillips
& Drew's plans to develop its corporate finance advisory business alongside its existing strengths in banking and bro-

Mr Emley said he believed UBS Phillips and Drew marked one of the last opportunities that would be available for some time to contribute to the building of a serious corporate finance arm of an interna-tional investment banking

Mr Stephen Brisby, the vice-Mr Stephen Krisdy, the vice-chairman in charge of corpo-rate finance, said he saw con-siderable scope for the expan-sion of the business, both in the UK corporate market and in cross-border merger and acquisition work.

### Changes at Pizza Hut

From July 1 Mr Wess van Reimsdijk becomes chairman and chief executive officer of PIZZA HUT's French and Dutch operations. He is succeeded as chief executive officer, Pizza Hut UK, by Mr Stewart Miller, director of

Mr Alan H. Burt has been appointed business development director of WIMPEY CONSTRUCTION MANAGEMENT.

Mr Thomas Redfern company secretary and group legal adviser, has been appointed to the board of H. YOUNG HOLDINGS.

🖸 Mr David Bean has been appointed export director of operations, Mr Chris Kelly,

regional operations director, will become director of operations. Mr van Reimsdijk remains on the UK board. The UK Pizza Hut franchise is held jointly by Whithread and

KALON GROUP. He joins from Laporte industries.

■ SWISS LIFE INSURANCE AND PENSION CO has appointed Mr Chris Ide as general manager for the UK.

W Mr Michael Woodell has been appointed managing director of AVCO TRUST.

Lord Rayne, chairman of London Merchant Securities, and deputy chairman of First Leisure Corporation, has joined the board of THE LONDON JAZZ RADIO.

■ BRINTEX has appointed Mr Michael Allsopp to the board, to be responsible for food and drink exhibitions.

E Lord Derwent, managing director of Hutchison Whampoa (Europe), has been appointed chairman of the LONDON AND PROVINCIAL ANTIQUE DEALERS' ASSOCIATION.

Mrs Lee Ann Thompson has been appointed a senior assistant director and UK marketing manager of COUNTY NATWEST INVESTMENT
MANAGEMENT. She joins
from Irving Trust Co.

m Mr Christian A.A. Mines has been appointed chief executive and managing director of HARRISON & JONES (HOLDINGS), Manchester, UK arm of Recticel NV. He was managing director of Kay-Metzeler.



### Nestlé S. A., Cham a Vevey (Switzerland)

### Capital Increase 1989

Subscription offer to the holders of shares and participation certificates

As a result of an objection being raised to registration of the amendments to the Articles of Association which were approved by the General Meeting of the Shareholders of Nestlé S.A. on May 25, 1989, the new regulation concerning the registration of registered shares and the creation of treasury stock are now the subject of legal proceedings. The subscription offer made to the shareholders and the holders of participation certificates is not affected by these proceedings and will take place as planned.

On May 25, 1989, the ordinary General Meeting of the shareholders of Nestlé S. A. approved a proposal submitted by the Board of Directors to raise the **share capital** from **Sfr. 339 909 000** to Sfr. **364 600 000**.

Additionally, the Board of Directors has decided to increase the participation capital from Sfr. 23 900 999 to Sfr. 24 909 900.

On the day of the aforementioned General Meeting of Nestlé S. A., a banking syndicate under the management of Credit Suisse, Zurich, subscribed for

53 650 new bearer shares of Sfr. 100 par value each 111 350 new registered shares of Sfr. 100 par value each 50 000 new participation certificates of Sfr. 20 per value each

and offers them for subscription from June 5 to June 21, 1989, at noon.

to the present shareholders and participation certificates holders, as follow. 1. Ratio

nature
1 new for 20 existing bearer shares
1 new for 20 existing registered shares
1 new for 20 existing participation certifies

Subscription price
 Sfr. 4500.- per bearer, respectively registered share
 Sfr. 900.- per participation certificate
 The Swiss federal issue tax will be borne by the company.

Exercise of subscription rights

Exercise of subscription rights

The coupons of the coupons of attached to bearer shares to tered shares by submission of the su

for participation cartificates, by submission of the coupons nr. 8 attached to participation cartificates, together with subscription form for participation cartificates. pation certificates, together with subscription form for par Subscription rights cannot be combined. Subscription agents are the following bank

and all swiss branches and agencies of the Darier & Cie, Sece

in Austria: Sissentrale and Back der Determ

Securities Co. Ltd., Tokyo

Registration in the share regist

The registration of the new registered shee 6 of the Articles of Association of the company.

The registered shares are issued as certificates without coupons.

Purchase and sale of rights Subscription agents are prepared to negotiate the purchase and sale of rights. The ne-gotiation will take place from June 5 to June 20, 1989.

The new shares and participation certificates are entitled to dividends as per January 1, 1989. Coupons Nr. 9 et seq. are attached to the bearer shares and to the participation certificates, while registered shares will be issued as certificates without coupons. Payment of the dividend will be carried out through assignation.

Applications will be made for the quotation of the new bearer end registered shares and the new participation certificates, on the Stock Exchanges of Zurich, Basie, Barne, Geneva, Lausanne and St. Gallen, Applications will be made for the quotation of the new bearer shares and participation certificates on the Stock Exchanges of Paris, Amsterdam (only bearer shares), Frankfurt, Dusseldorf, Brussels, Antwerp and Vienna.

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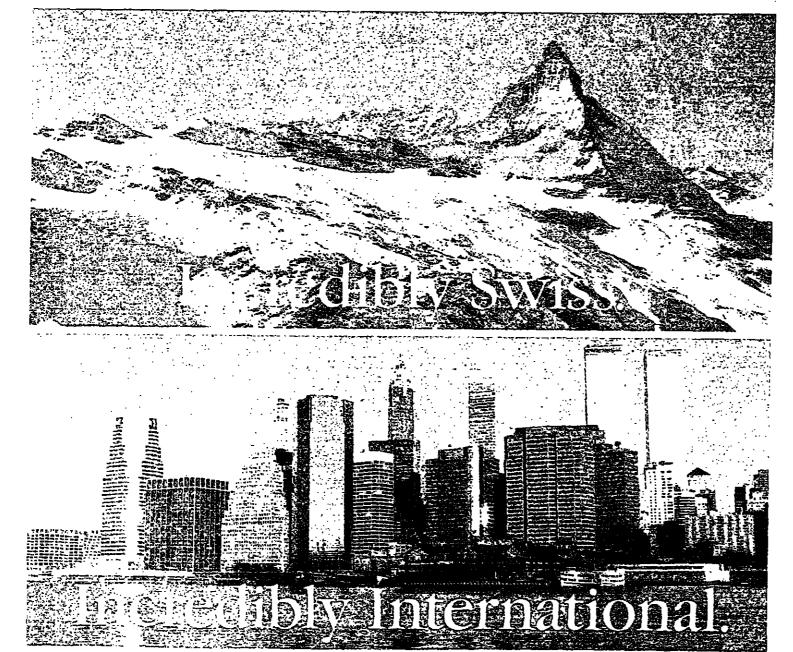
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Registered shares:

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### LEGAL COLUMN

# Taking a fresh look at solicitors' insurance

Y: -2

abandoning its Master Policy .cover at all, or only on terms scheme in favour of a statutory that were probabitive. The decimutual fund, the Law Society is again reviewing its arrangements for providing profes-

sional indemnity to solicitors.

The view of the society's standards and guidance committee, which has been looking at the issue, is that, for the moment at least, the maintenance of a statutory fund remains the worst convention. mains the most appropriate means of providing cover.

Any consideration of a

return to a Master Policy scheme would be premature, it feels. Such a sweeping reversal of policy after so short a time could be interpreted by the market as an indication that the profession regarded the insurance of its own civil ha- contributions bilities as being a poor risk.

That would not create a cli-

mate in which attractive terms could readily be achieved and premiums would again include an element of underwriting profit which the move to a mutual fund was designed to

Requiring solicitors to take out and maintain insurance regarded as an attractive option by many firms, on the basis that the only true test of the risk posed by a particular firm is the placing of that risk on the commercial market. The danger of that approach, however, is that some firms

SOME 18 months after would be unable to secure that were probabilive. The deci-sion as to whether a solicitor could practise would effectively rest with insurers, a state of affairs which the society would regard as unaccept-

> If indemnity were to be provided by authorised insurers, a "safety net" fund would almost certainly have to be set up by the profession to protect the public in those cases in which the insurers repudiated liabil-ity and the solicitor was

A significant imbalance in

unable to meet the claim. So any benefit accruing to individ-ual firms from the freedom to arrange their own indemnity cover would be eroded by the requirement to contribute to the safety net fund.

The committee also looked

at the question of whether, as a long-term option, the existing fund should become an insurer. That would require the Solicitors' Indemnity Fund Ltd to change its status from a fund established under the Solicitors Act to become an be the ability to underwrite risks enabling contributions to be based on an assessment of the risk presented by an indi-vidual firm or solicitor. And there would be the additional advantage that contributions would not attract VAT.

But the chief disadvantage of converting would be that substantial reserves would have to be built up to provide the solvency margin necessary to secure authorisation under the Insurance Companies Act. Such contributions could only be built up by increasing sig-nificantly the premiums paid by solicitors to the fund.

Hence the decision to stick with the existing mutual fund for the time being. The problem is that the SIF is far from perfect, not least in the signifi-cant imbalance in contributions to the fund that it pro-

To assess whether an imbal-ance exists, firms are classified by numbers of partners. The majority of the profession is in firms in which there is a broad balance between the contribu-tion to the fund and claims

The exceptions lie at the top and bottom of the scale. At one end, sole practitioners contrib-ute 9.12 per cent of the income of the fund, but account for 16.2 per cent of amounts paid out. By contrast, firms with more than 25 partners contrib-

The main advantage would ute 14.32 per cent of the income of the fund, while accounting for 7.8 per cent of claims paid. Correcting that imbalance is

no easy task. The society accepts that relating contributions to risk necessarily involves an element of rough justice. A judgmental rating of individual firms or solicitors

would have a fiavour of under-writing and would be outside the fund's powers.

It can also be argued that one purpose of the fund is to uphold the good name of the profession as a whole, inevitably, that involves the cost of providing indemnity to the bad, or even uninsurable, risk being borne in part by those who are blameless. Then there are wider policy

issues to consider. The profession as a whole has supported the principle of maintaining a network of local solicitors' offices around the country to provide the widest possible access to legal services to the public. Sole practitioners are an important part of that net-

The society's governing council would have to think very carefully before deciding that indemnity should only be offered to sole practitioners on terms which would increase their overheads to the point where it became unecor to continue in practice. Statistically, it says the under contribution to the fund

by sole practitioners could be corrected by increasing their contributions by 80 per cent. Unless the society wishes to be seen as the instrument of their demise, clearly such an option

It has opted instead for a strategy of reducing the amount paid out in claims arising from sole practitioners by increasing their self-insured deductible and by increasing the scope of cover in a way that will benefit the larger firms most disadvantaged by the imbalance at the moment.

There are wider policy issues to consider

An increase in the self-in-sured deductible for sole prac-titioners has the advantage that the burden falls on those who claim. An increase to a minimum of £2,000 per claim would have the equivalent effect on the imbalance of an increase of 15 per cent in sole practitioners' contributions.

The society also wants to increase the existing cover of £500,000 for each and every claim, to £1m. The cost of this would be an increase of roughly 9 per cent in contribu-tion rates. But if introduced

the minimum self-insured deductible to £2,000 in all cases, the net increase required would be about 7 per cent.

While most firms will pay more in contributions as a result of an increase in gross fees, this plan has the added advantage that it would not necessitate an increase in contribution rates this year to maintain the status quo.

The society is well aware of the adverse effect of the imbal-ance on larger firms, but it feels that its proposals for the current year will benefit them by reducing the amount of top-up cover they have to purchase, and, in particular, by making that reduction in what is normally the most expensive slice of cover.
For the future, it will look

again at the adequacy of con-tributions by sole practitio-ners. It has asked the board of SIF Ltd to consider whether it would be possible to classify sole practitioners more exactly by the type of work they do and to increase contributions for those classes of sole practi-tioner doing the types of work-more likely to give rise to

issues relating to professional indemnity which will have to be addressed if the green paper proposal to allow multidisciplinary partnerships goes through. **Hughes-Castell Ltd** 

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# Juggling with 850 per cent inflation in Brazil

John Barham on companies' valiant efforts to outflank economic gyrations

ow do companies survive, indeed flourish, when infla-tion is extremely high? Against huge odds, Brazilians have become past masters at living with and profiting from their country's chronic inflation.

In 1988 prices rose a record 934 per cent. The previous year inflation was 366 per cent, also a record. Now the inflation rate has temporarily subsided to "only" 8 to 9 per cent a month. Forecasters still expect inflation of at least 850 per cent this year. But inflation is only one facet of a

wider economic crisis. Businessmen must also cope with unpredictable lurches in government policy, decayed infrastructure and an ever present risk of sudden economic collapse. A handbook on inflation by Price Waterhouse, the international auditing firm, says drily: "Doing business under high inflationary conditions means exposing oneself to a great risk of failure."

Inflation magnifies the effects of even the smallest mistake or mis-timed decision. A slip-up can cost a company its market share and hence its profitability. When a company loses market share, it also loses the ability to impose frequent price increases, and its margins wither.

So high inflation demands rigorous financial and management discipline. Businessmen must be absolutely ruthless in wringing every penny out of their operations. All product lines must become profitable, all clients must generate profit and all waste must be eliminated. Companies that have survived this far are fit enough to make it through almost anything.

The best organised companies have extremely tight financial controls. Dupont, which operates a \$250m sub-sidiary in Brazil, is a typical example. Henriqué Ubrig, Dupont's vice president for finance and operations, says:
"Our philosophy is to have a zero cash balance. Unfortunately we still have to sell in cruzados so we still have some exposure to inflation."

Dupont shields itself from inflation by using all income either to remit dividends or to invest in industrial projects. Any surplus cash is immediately used to reduce local debt. Dupont protects its liquid cruzado assets with bank overdrafts. It draws on short term credit lines when its cruzado payments exceed receivables and uses spare cash to reduce the overdraft. Its pristine credit rating commands the lowest interest rates on the market, around 15 per cent a year in real terms. On average, Dupont never holds more than the cruzado equivalent of \$10-15m in any given month.

Brazilian companies usually adopt a less complex strategy. They simply deposit surplus cash on the overnight money market, which pays interest. slightly below the rate of inflation. Chase Manhattan bank says that at best, overnight market rates have maintained an investor's capital over

Since inflation gradually makes Since inflation graqually makes money worthless, all transactions have to be indexed. Traditionally, the government has provided a monthly indexation rate, which none the less underestimated inflation. Last year it even had to introduce a daily rate. But in January it abolished indexa-tion altogether in a desperate effort to stamp out inflation. It had to reintrod-uce an indexer in May.

nflation foreshortened time horizons. Companies raised prices fas-ter and faster and demanded to be naid sooner and sooner. Suppliers now require payment within, at most, 30 days and tack indexation and inter-est charges on to their invoices. They offer discounts for early payment, but charge punitive fees of 3 to 4 per cent per month over inflation for delays.

Suppliers and clients are in constant, and sometimes acrimonious, negotiation over their contracts. Companies with the best reputation for cash management are invariably the slowest to pay but the most implacable in enforcing prompt payment. Stocks are generally held to a mini-

mum, to reduce financial costs and exposure to inflation. Last year companies renewed their stocks every 90 days, on average. At the moment, they are renewing stocks every 45 days. Very often, however, stocks, like other tangible assets, provide as sound a hedge against inflation as the most sophisticated financial

Constant price adjustments may maintain margins and keep companies well placed in case of a sudden change in economic policy, but they also make the government's anti-inflation measures less likely to work.

Businessmen expect the government's next assault on inflation in August. Yet inflation does have the virtue of enforcing efficiency. Many Brazilian businesses have set up computerised systems which detect changes in prices, costs and margins and enable managers to make immediate adjustments to maintain their margins, And companies always seem to find ways of reducing costs. Dupont claims it has increased productivity by over 15 per cent a year for the past four to

five years. That is one reason why Brazilian companies still make money. In 1988, they earned an average 10 per cent return on net worth - astonishing under the circumstances.

Large companies are also well advised by a broad range of experts to alert them to possible government policy changes, new tax dodges and investment opportunities. But when the government introduced a Summer Plan, its latest anti-inflation policy, it punished companies that had been cautiously hedging against inflation by investing in federal bonds when it reduced the paper's real value by adjusting its indexation formula below inflation.

Sound advice is essential under a government that has gone through four finance ministers in four years, adopted five different economic policies since 1985, and introduced two new currencies since 1986. That is why consultants tell their multinational clients to make sure they have a Brazilian finance director. It takes a Brazilian to predict and react to sud-

den, radical changes.

Most companies were ready for the Summer Plan and evenly absorbed the price controls that came with it. The 1986 Cruzado Plan, Brazil's first such shock policy which changed the currency from the Cruzeiro, caught many of them by surprise. It hurt companies with products that were already under government price con-trols, such as the car and drug indus-

Most companies have some products under permanent government control. Not only do the bureaucrats try to set prices as low as they can, but as inflation rises, so does the cost of the time lag between price adjustments. However, the government has also been known to award larger increases than necessary, by mistake. Companies so blessed stand to make sive profits

Inflation makes companies export more. Competition may be fiercer abroad, but exporters are paid in hard currency. José Roberto Mendonça de Barros, a Sao Paolo business consultant, says: "Exports have grown spectacularly, not because they are more profitable, but because they are more secure." Exporters and multinationals habitually salt away part of their rev-



enues in safe foreign banks, the best bedge against inflation there is. Hedging has always been the top priority for multinationals. Treasur

ers have normally chosen gold or dollar-linked government bonds. However, government action in reducing paper's value, means that it is no ioner a safe hedge.
But the volatile financial markets

and unpredictable changes in regula-tions have made hedging almost as safe as a lottery. Sao Paolo's invest-ment banks have identified a new market niche and are vigorously pushing sophisticated, and sometimes risky, hedging instruments.

Some are semi-legal at best. Hedg-ing has become a form of speculation. One American banker says: "Hedging safely used to mean you could sleep at night, but we've got to the point where opportunity costs have increased so much that you have to get into speculation." Good finance directors are in heavy demand and command vast salaries. Last month, a finance director could earn a maximum £3,800 plus fringe benefits, a princely sum by Brazilian standards. Salarles are adjusted monthly.

Previously, no multinational company would risk straying from the sefect of delical hodges. But in Janu.

safest of dollar hedges. But in January, when the government cut the value of its bonds, froze the exchange rate and raised real interest rates to as high as 20 per cent per month, only the most conservative treasurers had second thoughts. They sold their dol-lar hedges and invested in govern-ment paper. Those that timed this right made a 34 per cent real return in the four months to April

Risks are increasing. Presidential

elections are to be held on November 15 and businessmen fear the left-wing candidate may win. The currency has begun climbing. In March, one dollar cost 1.7 new cruzados on the free currency market. Now it costs three cruzados. Investors are also becoming less willing to hold government bonds because they are afraid the next government may refuse to honour them.
The more adventurous are buying

property, gold, black market dollars and even farm produce to protect themselves from inflation.

Uncertainty discourages capital spending. Arthur Andersen, the accountants, estimate that in 1988, Brazilian companies could easily have invested an extra \$6bn without any trouble. Instead, they have piled up a vast cash hoard which yields more on the financial markets than any productive investment. Some comp have grown so cash rich over the years that their treasury departments now operate like small investment banks. Indeed last year, four major industrial corporations set up a real investment bank of their own.

But there are limits to speculation. Stephen Charles Kanitz, a Sao Paolo University accounting professor, calculates that companies invest no more than 2.7 per cent of their assets on the money market. Ubrig of Dupont, comments: "We do not speculate. We do not even buy gold. We are a chemical company, not a bank. It's a question of priorities."

Other companies are less persevering. Infuriated by the complexity of living with inflation, price controls and an ever-messier Brazilian economy, many multinationals have simply left the country.

# Companies need the will to listen

Michael Skapinker on the benefits of corporate responsibility

est German compa-nies have been quick to spot the UK demand for environmentally sound products, a Confedera-tion of British Industry conference was told last week. UK companies, on the other hand,

have been left floundering.
John Elkington, co-author of
the Green Consumer Guide, said that British oil companies had shown environmental awareness, "but the ordinary consumer product people have been appalling. They have tended to see environmental awareness as a problem, not a market opportunity."

Yet the growth of the green movement would have come as no surprise to anyone who had kept an eye on the changing concerns of British consumers over the past few years. So, too, companies that had

maintained links with schools would have been aware of the sharp drop in the number of Some of these companies

have been trying to make up the shortfall in new entrants by attracting experienced female staff back into retailing and clerical jobs. They have, in the process, come to realise that child care will be one of the major issues of the 1990s. But employers of more

highly-paid staff need to deal with the problem too. They may think they pay their staff sufficiently well for them to make their own child-care arrangements. Their employees, however, are already hav-ing difficulties finding women to .care for their children, regardless of how much they can afford to pay them.

How can companies anticipate such problems, thereby retaining their staff and pro tecting their markets against the incursions of more for-

ward-looking competitors?

One way is to involve themselves with the community in which they operate, according to a new book. Good Business: a Guide to Corporate Responsi-bility and Business Ethics\* argues that "one of the funda-mentals which separates you from your competitors is the quality of your information. The community is awash with information, if you have the will to listen." The authors, Sheena Carmichael and John Drummond, provide other examples of the way companies can benefit from their involvement with

the local community. By the 1970s, Honeywell, the US electronics group, had out-grown its headquarters building in Minneapolis. The building was surrounded by derelict housing in an area with few amenities. Other companies had solved the problem by moving out to the suburbs.

Honeywell decided to stay where it was and to extend its existing building. The com-pany spent the money it saved on the local community. Together with the local authority, it helped to build houses and improve transport.
"The local authority opened

an art gallery. Shops moved in. What they ended up with was an inner city which was a good place to live and work in, offices which met their needs. and a first-rate reputation in the local community. And it all cost no more than the move to the suburbs would have done,

the authors say. Companies which regard themselves as novices at community involvement are probably already doing more than they realise, the book says. "Each branch, division or

factory within your company is being approached all the time.
The chances are that you are responding to these approaches, but in an undirected, unstrategic way."
The first task is to find out that you are already doing.

what you are already doing. The second is to decide what you should be doing. "Find out where your staff think priori-ties lie."

Having identified these issues, decide which of them are important to your com-pany. If you are worried about the low educational standards of new employees, offer your company's help to schools and colleges. The book warns against involving the company in areas in which it has no interest. "There can be no social contract without a mutuality of interest," it says.

\*Hutchinson Business Books. £15.95 hardback. £6.95 paper

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uparis, which must be listed on special forms, which can be obtained on or after h 1988 at any of the shove offices, may be deposited on or after Monday 12th June prinspring for payment in the United Klondom must be leaf FUET of Season.

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# Almeida Festival

ALMEIDA THEATRE, ISLINGTON

As always, this year's festival with important sponsorship by Lufthansa — is an overflowing cornucopia, a month-plus crammed with music for the voraciously inquiring ear. There is nothing like it. For London music-lovers the imminent departure of Pierre Audi. who has run the Almeida and its festival with such adventurous inspiration since they were established, is a painful prospect, though from his Netherlands Opera base he will still have a hand in next year's jamboree. A main theme this time is new Soviet music, and that will be developed in 1990; undoubtedly there will be another series of the Almeida's rewarding showcases for individual composers, too, espe-cially ones we need to be reminded about.

Special attention is given this year not only to our lively contamporaries Jonathan Harvey, John Casken (with a new opera, Golem), Brian Ferneyhough and the venerable Henri Boursett hat the there is the state of t eur, but to three others lost too early: the self-destruc-tive Jean Barraqué (whom Max Loppert discusses below) Claude Vivier and Bruno Maderna. Maderna was celebrated by Oliver Knussen and the Almeida Ensemble in the opening concert on Friday. Dead at 53 in 1973, he had been not only a composer as much admired as, say, Luciano Berio, but a much-loved teacher and a devoted, insightful conductor of other people's music.

Perhaps his selfless respect for what others were doing denied him the bold individual stamp of a Boulez or a Stockstamp of a boulez of a Stock-hausen; and yet there is a transparent Maderna personal-ity, deeply wedded to actual sound and to an ideal of unique, live performances. And also to playful exploration, unconstrained by any hankering after a brand-name style; his role among his close contemporaries was much like that of Terry Riley among the "minimalists" – a free, investigative spirit with no weather-eye on the market. Before Riley, Xenakis or even Lutoslawski, Maderna was exploring the possibilities of open-ended invention conjoined with repet-itive patterns and echoes. The "aleatoric" freefall was always focused by a musical ear, and informed by a candid lyrical

instinct all'italiano. Of the Maderna "serenades and solos" Knussen chose for Friday, his comic settings from Boswell's Venetian Journal displayed the tenor Peter Hall's elegance and resourcefulness to admiration, as did the soloviolin *Widmung* for the talents of Jonathan Carney. It was a pleasure to hear the haunting Amanda (the Sixth Serenade) again, all tremulous precision and crystalline feeling. The rich 1972 canvas of Giardino religioso a whole formal garden of contrasting multi-faceted studies, seemed more than ever a serene, luminous pre-figura-tion of devices that junior composers were going to explore more egregiously and to far less musical effect.

David Murray

One of the strands in this year's prodigiously rich and diverse festival pattern is the music of the Frenchman Jean Barraqué (1928-73), one of the legendary figures of the pos-twar avant-garde. His tiny corwar avant-garde. His tiny cor-pus of completed works is being allotted two Almeida "days"; the first of them, in the form of Saturday's two con-certs, was the responsibility of Music Projects/London and their conductor, Richard Bernas, whose particular labour of love (and Hercules) the whole Almeida Barraque tribute may be called Barraqué's reputation -

which Bernas, in a wise programme-book introduction, advises us to treat historically is vastly inflated. By his supporters he was greeted at the time, and specially because of his monumental Piano Sonata (1950-52),as a so-called "answer to the Hammerkla-vier", as Beethoven's serialist beir. Since his death the aura of martyrdom seems to have accrued – the martyrdom of an intransigent musical ideal-ist and isolationist, unfairly

neglected and bypassed.
At a distance of time one may indeed admit to finding the composer's puritan aes-thetic creed ("Music which is only beautiful is a travesty") repulsive, and the whole idea (proposed anew by Harry Hal-breich in the Almeida pro-gramme) of a great composer

whose greatness is accessible only to a tiny few deeply suspect, not to say bogus.

Yet the fascination of the music remains: most of it, including the Piano Sonata (played in the afternoon concert by Claude Helffer) and the Nietzsche-settings Séquence taking the form of a sustained, note-proliferating assault on audience ears and susceptibili-ties, interleaved with jagged silences. The growth and decay processes in the music are explored without the smallest concern for sound-appeal (except in the last-completed work, the jazz-influenced Con-certo for clarinet and chamber group, of which the soloist Armand Angster and Bernas's players gave a marvellously lucid account on Saturday afternoon).
Argument is all, conducted

with a ferocious rigour and intensity that cannot fail to strike even the most sceptical or hostile of Barraqué's listeners. The main item of the even-ing concert in the Union Chawas the belated British premiere of the cantata ...au dela du hasard for three female soloists and a large chamber orchestrated made up of sharply contrasted internal groups. The great uncompleted project of Barraqué's life, a vast composition founded on Hermann Broch's magnifi-Hermann Broch's magnifi-cently dense epic novel The Death of Virgil this work forms the composer's "first thoughts" (the remaining two complete works are being given on 18 June, the second Almeida Bar-raque day).

The focus of the work is vin-lent visionary declamation.

lent visionary declamation, unremitting in its torrent. Of the full artistic thrust of ... au dèla du hasard on this occasion I must admit to taking in only a hazy outline, principally because the use of amplification for the three singers kept the musical unfolding at a volume of ear-punishing loudness (was this intended or accidental?). From the first of the Barraque days, however, it seems clear that his place on the margins of the 20th century is not undeserved: one can understand both the isolation of his position and the missionary enthusiasm of performers like Bernas.

Max Loppert

Piers Gough's computer studies building for Bryanston School

### **ARCHITECTURE**

# Context is the buzz word

tenants of our beritage and we have a moral duty to pass it on in as good a condition as that in which we received it." These were the words of the Prime Minister when she paid a visit to the Royal Fine Art Commis-

They have been repeated to introduce a modest but important exhibition called Conservation Today, at the Royal Academy of Arts in London until June 25. It is one of the first fruits of the Art and Architecture Education Trust recently set up by the Royal Fine Art Commission. It has been funded by the Wolfson Foundation.

Foundation.
On a fine May afternoon I was the only visitor to this display, which seemed to be rapidly gathering dust. It deserves a wider audience and perhaps will receive one on its European tour. Is the lack of interest due to the fact that, on the whole, we are all in favour of whole, we are all in havour of conservation and assume, as does the Prime Minister, that it is commonly understood as a "moral duty"? Or are we now a bit anspicious of sometimes platitudinous displays of enthusiasm by an official body like the Royal Fine Art Commission? The Commission does not necessarily practice what it

servation. But first of all, the positive aspects of this exhibition are aspects of this exhibition are worth emphasising. It is true that in the inner cities the remaining old or listed build-ings, when renovated, often provide the catalysts for more general renewal. It is unlikely today that any city would con-template the wholesale destruction of its historic centre as Birmingham did in the 1960's. That city seems to have belatedly seen the light in its Jewellery Quarter, where some modest old buildings have been

preaches when it comes to con-

now been successfully refurbished. Glasgow shows, even after decades of mistakes, that it is possible for both environmental changes to take place and to retain a mainly Victorian core to the city. Princes Square, a roofed square of 19th century professional buildings, shows graphically the commer-

cial potential of a well designed rehabilitation. spirit. In some of the City of London's conservation areas, par-ticularly around the Mansion House, there is immense

potential for sympathetic rehabilitation.

Billingsgate Fish Market is now the headquarters of Citi-corp International Banking architectural history at the turn of the century, is Limited. Architect Richard Rogers and his clients coped with the effects upon the foun-dations of 50 years of frozen ground and the danger of a partial collapse by spending some some £40m to create 120,000 square feet of commercial offices. Sadly, the former fish market area will not be accessible to the public as there is no public access and developers.
The curious fact remains

no retail provision. no retail provision.

Two prominent Victorian hotels in London, The Laugham and St. Pancras, are both heing restored. The rehabilitation of St. Pancras, by architects YRM for developers Speyhawk and McAlpine, promises to enrich a part of London that badly needs the catalyst of a large-scale new user in a fine large-scale new user in a fine building. It is the quality of the original Gilbert Scott hotel and chambers that has inspired the

The Royal Fine Art Commission and their exhibition adviswhen they come to discuss the problems of building new buildings alongside the old. "Context" is the vogue word and sensitivity to it is certainly the key for excess in difficult the key for success in difficult historical locations.

The work of the architect Piers Gough wins accolades and he is rightly singled out as an instinctively gifted designer. His renowned wit comes to the fore in the new computer studies building for Bryanston School. Norman Shaw, the architect of the original country house which became the school, was himself a skilled interpreter of the his-torical tradition. Piers Gough has added a brilliant, small building that responds to Shaw while roaring off into the realms of Baroque fantasy. In terms of marriages of old and new Gough, both at Bryanston and in his London Dockland building at China Wharf.

shows tremendous informed There is another intelligent architect, Roderick Gradidge, who has carved a niche for himself in the design of coun-try houses. His understanding of history, especially English

considerable.

The exhibition is accompanied by a book which is more than a catalogue (Conservation Today by David Pearce, Rou-tledge, £11.95). It argues the case to prove that conservation is not reactionary and nostalgic, and that it definitely "pays." It should be widely read, particularly by property

that a body like the Royal Fine Art Commission can still be completely schizophrenic about conservation. Take the long running problem in the City of London about Mr Peter Palumbo's proposal to demolish eight listed buildings in the heart of the Bank of England tion areas. The Commission, in a letter to the Public Inquiry dated 16 May 1988, "warmly supports" the plan to demolish the listed building and cover the whole site with a new

building.
The Secretary of State for the Environment, Mr Nicholas Ridley, is currently looking at his inspector's report and will soon have to decide whether or not to allow this scheme. Per-haps he will be reminded that the same Commission, in ear-lier evidence, applauded the retention of the Mappin and Webb building as a "familiar

landmark."

The exhibition is clear proof that conservation and refurbishment in our older cities is the right approach, and this need not rule out good new buildings on appropriate sites where the past can act as an inspiration. But there is still a need for a more careful approach on sites close to historic buildings, and a less cava-lier approach to archaeology. These important conservation problems are scarcely discussed in this exhibition.

Colin Amery

June 2-8

### Sponsorship

At the last minute, (hypothetically speaking) the Royal Academy has found a sponsor for its mammoth autumn exhibition devoted to photography. To be exact it has got two sponsors - with Logica, the computer software company, and Midland Bank each contributing £150,000. It is Logica's first arts sponsorship so there could be an extra £25,000 under the Government's Business Sponsorship Incentive Scheme.

The Art of Photography 1839-1939 is the biggest event in the celebration of 150 years of photography. It was first mounted in Houston and is currently in Canberra. The RA was amazed that sponsors, in particular camera and film companies, were not fighting each other for the London show. Now all has ended happily with the two backers offer-ing a guarantee against loss.

It is likely that they will be let off very cheaply because

The Independent has agreed to be associated with the exhibition, giving it comprehensive coverage. Involving a newspa-per in an arts event is becoming a popular form of mutually advantageous sponsorship

guarantee.

Next Saturday the RA's
Summer Show, the traditional
start to the London Season, opens to the public. The main sponsor is Korn/Ferry, the leading management head hunters, which has increased its aid to £15,000, with all the money going to artists. A dis-tinguished panel has selected what it considers to be the five what it considers to be the five finest exhibits in the Show — works by two RAs, Carel Weight and Craigie Aitchison, an ARA Michael Sandle, and two other artists Albert Irwin and Mick Rooney. They each get £1,000. Now all the RAs, and the public, get the chance to separately select one of the five as Best in Show. So at the end of June one artist will end of June one artist will receive another £10,000, or two will get £5,000 each, depending on whether the professionals agree with the man in the

street.
There is no overall sponsor Last year Esso gave around £100,000 for the privilege but since the RA makes a profit from the Show (last year taking £250,000 in commission on sales) this is jam rather than essential bread.

Tonight a small miracle takes place in west London. Earls Court, which usually resembles a particularly austere air-craft hangar, will be trans-formed into a Spanish village, a suitable backcloth for the enactment of Bizet's operatic tragedy, Carmen.
The £3m-plus show is the work of Classical Productions,

a joint venture between Mark McCormack's IMG and impres-sario Harvey Goldsmith, who last year put on Aida. Carmen is even more ambitious and 100,000 people are expected to pay up to £45 a ticket over seven performances. Such a commercial venture would hardly seem to need sponsor-ship but the MI Group, a finan-cial services company, paid £500,000 last year to cover a three-year link, and seems so enthused about the venture that it has raised this to £300,000 for Carmen alone.

The price has been upped because Carmen is to be televised live on both Channel Four and Sky. MI already gets a mention on every advertisement, leaflet, and radio com-mercial and has placed its logo on the cushions which have just been ordered to make the seats more comfortable. It also receives some free tickets as well as the opportunity to buy more for the charity perfor-mance on behalf of Save the Children which will bring Princess Anne to Earls Court, yet for all its investment MI still remains mysterious to most

people. Seventy more companies are each paying £8,000 to hire one of the ten marquees that have been creeted around the performance area in which fifty guests can be entertained. It might not have the glitz of Glyndebourne, but Glyndebourne goes to great lengths to prevent company entertaining taking over the performances.

Carmen is turning out to be the biggest arts sponsorship bandwagon ever, if such a monumental extravaganza can be counted as an artistic event. When it goes to Tokyo later this year Mitsubishi Electronics is putting up \$2.5m (£1.56m), towards the cost of the transfer, plus another \$2.5m, in promotional costs to ensure that it is a success.

If Carmen is the show biz event of the summer the artistic accolade must go to the six week season of the Bolshoi ballet company from Moscow at the Coliseum, followed by a week in Birmingham and another week in Dublin. Here too sponsors have made an important contribution. West-ern Motor Holdings contribut-ing almost £400,000. According to Victoria Charlton of the Entertainment Corporation, which has negotiated the visit, without such an infusion the top seat price would have been 175: as things stand it is 155. Western Motor Holdings is not the most famous company

in the world and this is the first time it has ventured into any form of sponsorship. It has strong East European links, being the importer of Lada cars, and among its directors is Mr A Oztemel, an Armand Hammer figure who has traded for many years with the Soviet Union, taking much of its chrome.

Because the sums involved in bringing over a company with more than 200 members are so monumental BOC is assuming some of the sponsor-ship burden, for two weeks on payment of £100,000. Along with Western it is mainly buy-ing good will - it receives some free tickets but it is paying for many more with which to entertain contacts. As usual with Entertainment Corporation ventures involving Soviet artists accommodation is provided by Mount Charlotte Hotels while Ryan Air is flying

the company to Dublin.

On top of the overall sponsorship eight companies have bought into the occasion, holding party evenings organised by Belle Shenkman, who has companed the market in smart cornered the market in smart arts sponsorship entertaining. For up to £40,000 the likes of Jaguar, Alcan and BET get tickets, a party, (usually at the National Portrait Gallery), and lots of style.

sponsors to back amateur pro-ductions with real money but the Royal College of Music Opera school production of Eugene Onegin has received £10,000 from the auditing firm of Ernst & Whinney. Yes they are the RCM's auditors but this

is a mighty sum to keep a client happy.

The performance will take place in the newish Britten theatre which the RCM is using as a revenue booster in these days of more self sufficiency among colleges. The sponsor gets 400 free tickets, which could fill the auditorium on one night. The fact that the opera is to be sung in Russian is actually an advantage: Ernst & Whinney is establishing itself in the Soviet Union and will doubtless be entertaining Russian guests.

**Antony Thorncroft** 

# Es war einmal

The operas of Alexander Zemlinsky, together with those of his contemporary Franz Schreker, are very much a flayour of the moment: European opera houses are falling over themselves to bring as many of their works as possible into the repertory, and slowly but surely they are finding their way onto disc as well.

Zemlinsky's third opera Der Traumgörge has recently appeared, and on Thursday last Radio 3 broadcast a tape from Danish Radio of its immediate predecessor a studio production of Es war einmal, sponsored by the European Broadcasting Union, which was the first performance of the score since the composer himself conducted it in 1912, tweive years after Mahler had given the premiere.

The plot, such as it is, is loosely based upon Andersen's fairy-tale The Swineherd, filtered through an extended Danish verse drama and a libretto by Drachmann: a haughty princess is tricked into marrying a prince disguised as a gypsy, who carries

her off to a life of deprivation before all is revealed and everyone can live happily ever after. It is thin and contrived, but provides ample opportuni-ties for grand choral set pieces and folk-weave interludes.
In general Zemlinsky's style is founded upon Wagner - Meistersinger rather than Triston - and the influence of

Humperdinck's Hansel und Gretel is strong. As always his own natural inclinations seem to be hidden behind a series of stylistic disguises. Because of his friendship with the Second Viennese School and the success of works like the *Lyric* Symphony, Zemlinsky tends to be pigeon-boled as a timorous expressionist. The more one hears of his output, though, the more polyglot it seems, so that his expressionism becomes just another of the many-coloured coats, tried for size and discarded when it didn't quite fit.

Es war einmal may be not

strong enough, dramatically or musically, to re-establish itself in the opera house, but it contains one significant curiosity.

When he prepared the first per-formance, Mahler took it upon himself to suggest changes to the text and music, and even went as far as rewriting the closing pages of the first act. That passage, roughly 50 bars long, turns out to be the most striking music in the score, unlike anything else in the opera or anything in Mahler's own output - a tingling transition from the knockabout farce of the opening scenes to the more serious moralising

the more serious moralising tone of the rest. It is the piv-otal point of the drama.

This account, with the Dan-ish Radio Choir and Orchestra conducted by Hans Graf, was serviceable, if a little pallid; a top notch band might just have given the music some added bite. The King of Aage Haug-land was the most striking of the solo roles, though both Kurt Westl and Eva Johansson worked hard to make the most of Prince and Princess's demanding vocal lines. An intriguing, if ultimately disappointing revival.

**Andrew Clements** 

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**FINANCIAL TIMES** 

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**FINANCIAL TIMES** 

Royal Philarmonic Orchestra conducted by Vladimir Ashken-azy, playing Brahms. Barbican Centre (Mon and Wed) (638 8891) London Symphony Orchestra conducted by Sir Georga Solti, with Murray Perahia (plano). Mozart and Mahler (Tue) and Beethoven and Brahms (Thurs)

Berbican Centre (Tue) (88 8891)
The Philamonta conducted by
Gluseppe Sinopoli, with Alicia
de Larrocha (plano) and Lucia
Ponn (conveno) performing Meh. Popp (soprano), performing Mah-ler and Mozart. Royal Festival Hall (Wed).

Kathleen Battle, Martin Katz piano: Haendel, Schubert, R. Strauss, Faure, Spirituals (Mon) Théatre de l'Athenée (474 26727) Théatre de l'Athenée (474 26727)
Il Giovanne Quartetto Italiano:
Mozart, Schuhert, Verdi (Tue)
Nouveau Théatre Mouffetard,
78, Rue Mouffetard (43311199)
Maurizio Follini, piano recitai
(Tue) Salle Pieyel (4563873)
Orchestre de Paris conducted
by Daniel Barenboim, Susan
Dum, soprano, Marizand Meier,
mezzasomano, Lucieno Pava. -soprano, Luciano Pavanieza-soprano, Lucano rava-rotti, tenor, Ferruccio Furlanetto, bass with Orchestre de Paris' choirconducted by Arthur Old-ham: Verdi, Messa da Requiem (Wed, Thur) Salle Pleyel

Brussels Choral Society, the BRT chorus and the Brussels Festival Orchestra conducted by Tom Cunningham with Julie Kennard

(Soprano) Michael George (Bass) performing Brahms' Ein Deut-sches Requiem (Mon).

Frankfurt

Radu Lupu piano recital. Bach, Mozart, Schubert. Alte Oper Berlin

Berlin Philharmonic Orchestra and choir with Julia Varady and-Dietrich Fischer-Dieskau, con-ducted by Uwe Gronostay, Brahms' Requiem. (Wed). (Over the next few weeks, Vienna will be dominated by its annual "Wiener Fest Wood which opened on May 11 and continues through to June 18.) Synthesizerkonzert, Recital by

Luciano Pavarotti, with Leon Magiera, piano. Musikverein. (Mon).
Wiener-Hofburg Orchester, conducted by Gert Hofbauer. Miscelducted by works. Musik-

Kuchl Quartett, Haydn, Ravel, Schostakowitsch, Musikverein. (Wed). Wiener Symphoniker, conducted by Christopher Hogwood. Bach's Mass in B minor. Konzerthaus.

I Virtuesi Di Roma. Carlo Maria Guilini conducting Beethoven's Missa Solemnis in D Major with soprano Elizabeth Connell, Julia Hamari (contratto), tenor Siegir-ied Jerusalem and Simon Estes (bass). Auditorium in Via Della Conciliazione. (Mon. Tues.)

Teatro Alla Scala. Myung Whun Chung conducting Mussorgsky, Chaikovsky and Shostakovich. (Mon) (80.91.26)

Washington National Symphony Orchestra conducted by Matislav Rostro-povich. Offenbach, Britten. Ken-nedy Center Concert Hall (Tue)

nedy Center Concert Hall (Tue) (254 3776)
National Symphony Orchestra conducted by Mstislav Rostropovich with Cleopatra Ciurca (mezzo soprano). Paul Phishka (bass), and the Choral Arts Society of Washington directed by Norman Schribner. Prokofiev programme Kennedy Center programme. Kennedy Center Concert Hall (Thur) (254 3776)

Tokyo

Janacek Quartet. Janacek, Dvo-rak, Smetena. Tokyo Bunka Kai-kan, recital hall (Mon) (449 8451) Aprile Milo (soprano) Gluck, Handel, Bellini, Schubert. Kan'i Hoken Hall, Gotanda (Mon) (235

Moscow Philharmonic Orchestra, conducted by Dmitry Kitaenko. Tchaikovsky, Shosta-kovich. Suntory Hall (Tues) (505

1010) Finnish Radio Symphony Orchestra, conducted by Jukka-Pekka Saraste. Sibelius, Debussy, Schumann. Suntory Hall (Thurs) (235 1661) Tallis Scholars, conducted by

Peter Philips. Josquin de Pres, Cibbons, Gombert, Lassus. Casals Hall (Thurs) (403 5871)

### Saleroom

The Pontormo effect — the anticipated fillip in demand for Old Masters following Christie's sale on Wednesday of a portrait by the 16th century Florentine artist Pontormo for a record \$35.2m (£22.7m) - was immediate. The subsequent Sotheby's sale of 128 Old Mas-ter and 19th century paintings from the estate of the late Walter P. Chrysler Jr, son of the founder of the Chrysler Corporation, went swimmingly, mak-

ing \$18.5m. (£11.7m), with only

4 per cent unsold. Some dealers were rather supercilious about Chrysler's buying in the post-War period, considering that his taste lacked refinement. But as record followed record the auction began to resemble an Impressionist sale. The top price was the £1.5m. paid by Guy Sainty, the New York dealer, for "Landscape with Aqueduct" painted in 1818 by Théodore Géricault. It was a record for the short-lived French artist.

Another record was the £1.19m. paid by Gert Rudolf Flick for an architectural capriccio by Bernardo Bellotto showing the 18th century artist in the costume of a Venetian nobleman. One of Ingres' many versions of Raphael and Fornarina, showing the Old Mas-ter hugging his half-naked mistress, set another artist record

In the general sale that fol-

lowed, the London dealer Johnny van Haeften paid £1.85m, ten times the estimate, for a Dutch interior by Jan Steen showing a man and a

woman playing cards.

The demand at the sale was reassuringly widespread, with dealers from many countries competing against collectors. The one thing absent was any big Japanese buying, but the Japanese, the main driving force behind the rise in Impressionist and modern pictures in recent years, are starting to collect Old

Masters. Agnew's, the Bond Street dealers, has just sold three important paintings to Japan. sketch by the 18th century Venetian artist Giovanni Bat-tista Tiepolo of "The Apotheo-sis of Admiral Vettor Pisani" to the National Museum of Western Art in Tokyo; Dau-mier's panel "Don Quixote and Sancho Panza" to the Bridgestone Museum of Art also in Tokyo; and a Constable painting of Trees on Hampstead Heath, to the Shizuoka Prefectural Museum in south west Tokyo. More sales are

One difference between the Impressionist and Old Master markets is that dealers still dominate in Old Masters and many deals take place privately at very high prices.

Antony Thorncroft

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BRUSSELS

many UK companies have still

not learned how to respond

effectively to high street demand. In the building mate-

rials sector, for example, where

the UK ran up a deficit of £2.5bn last year, it is likely

that cement imports will rap-

idly wither away as demand

cools; but UK producers are not expected to make a big exporting impact in metal fit-tings, where British consumers

have emphatically shown their

preference for foreign designs. Two pessimistic reports on

quality and productivity in UK manufacture of kitchen furni-ture and women's clothing

compared with that in West Germany were issued recently by the National Institute of

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Monday June 5 1989

# China's giant step backwards

West's views on these matters clear and for Britain, in partic-

ular, to reconsider the future

of the 5.5m people in its colony

of Hong Kong, due to be trans-ferred to Chinese sovereignty

There are a variety of ways the international community

can respond. First, displeasure

needs to be expressed unequiv-ocally through all available diplomatic channels together

with reminders that invest-

ment, trade (notably arms

deals) and ventures to help China's economic modernisa-

tion cannot and will not continue if the Government behaves in this way. China's fellow members of the United Nations Security Council

should also make plain their horror – which will be an interesting test of the Soviet

Union's willingness to line up against a Communist power

vith which it has recently

The international commu-

ss its anxiety to Britain

nity might also usefully

about Hong Kong. Britain has long taken a deliberately opti-mistic view of China, seeking to accommodate its wishes on

Hong Kong in the interests of

good relations with the Peking Government. The Sino-British

agreement of 1984 on the future of Hong Kong was predi-cated on the good faith of the

Chinese Government in guaranteeing the internal integrity

of Hong Kong for at least 50 years after 1997. How much is

Further negotiations on the minutiae of a Basic Law for the

Hong Kong people after 1997 are not tenable with the pres-

ent regime in Peking; and the British Government will now have to take the issue of the future of the Hong Kong people more seriously than hitherto.

This may mean reopening the question of status and nation-

ality or, finally, responding to demands for democracy (now

reinforced by last month's

demonstration of between im and 2m Hong Kong people in support of the Chinese demo-cratic movement). Above all, it

means no longer kowtowing to a regime which cannot be trusted.

that good faith worth now?

achieved a *ropprochement*.

Good faith

CATASTROPHE HIT China at the weekend. An intervention by the military against the student protests in Peking was long expected but its sheer brutality stunned even those experienced in the less humane aspects of China's history.

The fact that a large heavily armed force was able to massacre a crowd of peaceful and unarmed protesters does not in itself clarify what is happening at the top of China's deeply divided leadership. It does make clear, however, that the small group of survivors from some sort of control under Deng Xiaoping are unreconstructed totalitarians. Their disregard for human life raises questions which now require urgent responses from the international community.

The events of the weekend make nonsense of Deng's international image as a reformer and supporter of liberal thought. His responses to the student protests of recent weeks and his manoeuvrings against the liberals within the party hierarchy underline his position as a hardline authori-tarian, determined at all costs to retain political control through the party. The label-ling of demonstrators as "counter-revolutionaries" ech-oes the illiberal and confused rhetoric which accompanied China's erratic progress through the 1950s, 1960s and

### Human rights

The West and, latterly, the East bloc wished to believe that it was dealing with a new and different type of regime in Peking under Deng's leadership. This was undoubtedly true in terms of economic reform and the open policy towards foreign capital and for-eign tourists. It was never true terms of human and political rights, and the West may now be regretting that it paid too little attention to the abuses perpetrated against individuals and entire ethnic minorities, notably in Tibet. Deng has commented that the West is more concerned with markets than with the fate of individuals. He has now thrown away 10 years of carefully orchestrated international public relations in one unnecessary, bloody night.

EXTENSIVELY anticipated

and several times prematurely

announced, the death of Aya-tollah Khomeini, leader and

guide of Iran's Islamic revolu-

tion, has at last occurred. The Islamic Republic Itself is

plunged in mourning, much of it no doubt sincere and sin-

cerely shared by Moslems in other countries. For many Mos-

lems Khomeini's achievement in overthrowing the Wester-nised regime of the late Shah,

and in establishing a 1,400-

year-old religion as one the

main competing political ideologies of the late 20th century, far outweighs the various

shortcomings, not to say bar-barities, of his ten years in power. We in the West have had to grapple with this phe-nomenon, and have come to

accord it a grudging respect, accepting that non-Western

peoples wish to express their "identity" by seeking inspira-tion in their own tradition rather than in Western values.

Hitler in this century have mounted a comparable chal-

lenge is less formidable than theirs in that Iran is not, and

seems unlikely to become, a

military power comparable to

Germany or the Soviet Union. But it is in one sense more

radical, because it purports to come from right outside the

Western tradition. In fact, as

Dr Sami Zubaida points out in a recent book\*, the modern

nation-state, an essentially Western concept, is an impor-

meini's political theory. But

the attraction of that theory to

many Moslems is that by adopting it they believe they

tyranny of Western modes of thought. can free themselves from the

For anyone who remains

attached to Western liberal val-

ues Khomelni's theory and

practice alike are peculiarly unattractive. He imposed a

narrow definition of virtue by

the use of physical force which

often took very primitive forms

but by no means scorned the

aid of modern technology; and

he claimed supreme authority for the faqih, or expert in divine law, who turned out to be himself.

Physical force

Perhaps only Lenin and

No tears for

the Imam But after him, who? Yesterday's choice of President Ali Khamenei does not really answer the question. Neither he nor any of the alternative candidates could aspire to the unquestioned authority that Khomeini enjoyed as leader of the revolution; or even, proba-bly, to the unofficial but deeply resonant title of "Imam" by which he was known.

### Power struggle

Like other absolute rulers. Khomeini was shrewd enough to delegate power in small doses, maintaining a balance among his advisers. His depar-ture thus sets the scene for a classic power struggle, in which the battle lines may well not follow the neat division between radicals and moderates for which Western policymakers yearn.

For what it is worth, Presi-

dent Khamenei has recently been cast as one of the pragmatists; and the fact that he has now been endowed with supreme religious authority lenge to the world hegemony of post-Enlightenment Western liberalism. Khomeini's chaldespite being a mere "hojato-leslam", as opposed to an ayatollah, is itself a pragmatic move. More important, per-haps, is the speed with which the decision was taken, showing that the regime at least has sufficient cohesion to act promptly in a crisis. Past experience suggests that policy choices are dictated less by the identity of the winning faction than by the stage the battle has reached: it was after the victory of the radicals in 1980 that the US hostages were

The conclusion reached by the "pragmatists" last year, that in the end Iran cannot afford to be isolated in the international community, is one likely to impose itself sooner or later on any faction whose interests become identified with successful management of the state, rather than with finding failures to blame on its opponents. That being so, Western interests will be best served by a concerted diplomacy holding out the prospect of tangible benefits if Iran's isolation is broken, but ensuring that isolation continues and grows more complete so long as Iran persists in flouting the established norms of international behaviour.

\*Islam, the People and the State

(Routledge, £27.95).

n the neat Yorkshire town of Lightcliffe, Crosslee, a tumble dryer maker, is enjoying another booming year of production and exports. Around 350,000 machines will roll off its manufacturing lines in 1989, a fifth up on last year. More than half will go abroad, installed in kitchens from Oslo to Madrid. Like many compa-nies in the UK, Crosslee's factory is busy and its distributors are selling more outside the UK than ever before.

Buried in Crosslee's operat-ing figures, however, is a curi-ous detail. It costs the com-

pany 27p less per dryer to transport a full truck load of products to Frankfurt than it does to Southampton. "The reason is simple," says Mr Derek Clee, joint managing director. "There are so many foreign trucks coming into West Yorkshire bringing in imports that their operators are desperate to find any loads to take back to the Continent." Crosslee's trucking costs highlight one of the most pressing issues facing the British economy. While factories are generally bulging with work, the trade deficit which emerged in manufactured products and the control of the contro emergen in manufactured prod-ucts in 1982 has opened into a yawning chasm. Trade in goods other than oil has tum-bled from a surplus of £245m in 1981 to a deficit of £22.9bn last year. Even after including the positive contribution of oil, the deficit, excluding services, had reached £20.5bn. In manufac-tured equipment alone, excluding processed goods such as food, it amounted to £14.5bn and in the current year, this

part of the deficit looks to be heading for £18bn.

Britain's soaring appetite for foreign products was due in part to what many economists regard as benign trends in manufacturing industry. Imports of foreign machine tools and other production equipment, for example, went up by 21.5 per cent last year as UK companies revamped production lines. At the same time, rising imports in some narrow product areas were matched by increasing exports in others, a shift of emphasis that was part of a general worldwide move towards greater specialisation. This happened, for example, in capital goods, where import growth was balanced by an 18 per cent was balanced by an 18 per cent

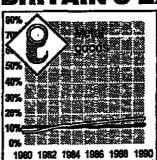
jump in exports.

The big problem occurred in the much more visible area of consumer demand, where for-eign products, from West German luxury cars to Japanese compact disc players and French fitted kitchens, flooded into Britain on a tide of credit. In these industries, UK compa-nies were left high and dry. According to a report by Mr Walter Eltis, director general of the National Economic Development Office, imports of consumer-oriented products rose by almost 18 per cent in 1989 while exports were stagnant. Three large-volume consumer industries, motor cars, textiles and home electronics, accounted by themselves for £8.6bn – well over half – of the trade deficit in manufac-

tured goods. The surfeit in demand in all these areas is now under attack as punitive interest rates take some of the sting out of the high street boom and the runaway housing mar-ket. But as imports fall, atten-tion will shift to British industry's ability to switch production into export mar-

Terry Dodsworth and Nick Garnett analyse the poor showing of much of British industry in world markets

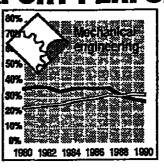
### BRITAIN'S EXPORT PERFORMANCE

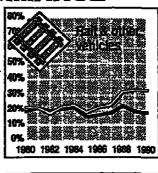


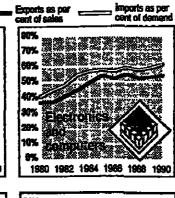
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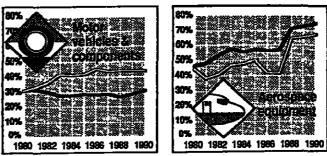
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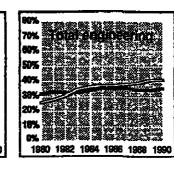
1980 1982 1984 1986 1988 1990











### Economic and Social Research. The conclusion that emerges from this list of exporting probhem areas is not totally damning to the UK economy. One thing the examples underscore is the continuing strong trend towards international manufacturing specialisation, which will inevitably mean more cross-border trade. Britain's weakness, as the critics see it, is that it is not managing this evolution as skilfully as international competitors such as West Germany, which has a higher level of import penetra-

tion in manufactured goods than Britain, but a correspond-ingly stronger rate of exports. Britain is advancing on these lines in some areas. The defence sector, for example, is one of considerable and growone of considerable and grow-ing strength, with Britain now probably the world's third larg-est exporter of military equip-ment after the US and the ment after the US and the Soviet Union. The industry believes prospects are good, that procurement specifications by the Government in terms of exportable products are improving, and that the French are slipping as competitors open market for foreign compo-

There is similar exporting potential in chemicals. The UK pharmaceuticals sector has made large strides internationally in the last decade, while in specialised organic chemicals – intermediate products which go into other materials – a handful of medium-sized British companies have turned a definit into a substantial sur-

deficit into a substantial sur-plus during the 1980s.

Nevertheless, Britain appears to have a dispropor-tionately small number of healthy exporting sectors carrying a larger amount of weak and flagging industries. For this reason, many industrial-ists argue that hopes of an enduring recovery in manufacturing exports may now depend critically upon the policies of foreign companies mov-

ing into Britain.

These producers, they say, bring technology, a long-term commitment to manufacturing that is often lacking in British industry and a relliences. industry, and a willingness to invest in greenfield projects that has rarely been seen among UK-owned companies

Mr Gilbert Johnson, chief executive of JCB, the construction equipment maker which is one of Britain's outstanding competitors in world markets, speaks for a lot of industry when he dismisses government talk of a quick turnround in the trading imbalance. "I think a lot of ministers talk absolute rubbish." he says. "A lot of things might help, but I think that for volume products you can only look to projects like the Toyota car investment in Derbyshire."

# Laggards in the exports race

kets. Which sectors are equipped to help close the

trade gap?
Some industrialists believe British manufacturers are better placed to make such a competitive effort than for many years. Structural reorganisa-tion in UK companies and the industrial environment — the so-called supply-side revolution

has, they claim, led to lower
costs, and better design, delivery times and quality.
Sir David Plastow, chairman

of the Vickers engineering group, argues that the capacity cuts in the early 1960s have created a new breed of UK manager. "British industry went through a traumatic time

Long-term recovery may depend on the policies of the UK's foreign companies

in that period, but contemporary management in the UK is rary management in the UK is as good as most in the world."
However, plenty of industrialists, many of them exporters themselves, take a much less optimistic stance. They tend to argue that while individual UK companies might be doing well, the overall performance

will not be good enough to redress the balance.

"In the last 10 years there has been a big improvement in efficiency in Britain," says Mr efficiency in Britain," says Mr
Len Weaver, chairman of the
Jones and Shipman machine
tool company, which exports
more than half its production.
"Productivity has grown, and
people are no longer shaking
their heads and wondering if

we can continue as an industrial country. But I don't see the deficit disappearing easily. There is a world of difference between companies which are serving this country and those which are out there competing

Doubts about Britain's ability to compete more effectively cover a range of issues:

There are some large-scale industries where UK manufac-turers do not have the scope to turn the tide over the short to medium term. The outstanding example is cars, where UK production capacity is about 1m units short of domestic

While there are hopes that production from the new Nissan and Toyota plants will begin to eradicate the gap by the mid-1990s, most of the large-scale producers in Britain are foreign companies without are foreign companies without a big commitment to exports because they have plants elsewhere in the region. Rover, the remaining UK-owned producer, is reducing capacity. While foreign-owned manufacturers now have well-established distributions of the product of tion networks in the UK, the survival of some plants, such as Peugeot's in the Midlands, might be questionable if there were a widescale market turn-

• Currency, while not the menacing ogre it was in the period of strong sterling in the early 1980s, is still an anxiety, particularly for companies dealing mainly in dollars. Nedo figures show that UK companies have gained competitively from exchange rate movements against the D-Mark since 1983, but, until the recent slide in sterling, their prices had become about 15 per cent less

This issue is critical in textiles, and in aerospace, which is one of the outstanding UK trading successes in the 1980s with a trading surplus last year of £1.7bn. UK aerospace groups have become so depen-dent on American sales that they are increasingly trying to balance their dollar revenues by dollar costs. This means purchasing parts in dollars, many of them from overseas, so that the UK no longer receives the full benefit from receives the full behefit from the flow of foreign orders.

The industrial base in Britain may have narrowed to a dangerous degrees. Mr Eltis homed in on this point in his Nedo paper, remarking that if there are "fundamental gaps in the product range... imports may short up at rates that

competitive against dollar-

based competitors.

may shoot up at rates that exports cannot match when-ever the UK enjoys rapid Some industrialists believe these inadequacies in Britain's manufacturing portfolio will now weaken the attempt to switch production into export markets. According to the Engineering Employers Federation, for example, the only sector in trade surplus among the metal-related industries, encompassing scores of sectors from electronics to heavy engi-neering, is aerospace and defence equipment. Even mechanical engineering is heading for a deficit this year for the first time in living memory. In the newer, high-technology industries, the UK appears to have settled into a

ing foreign investment may have short-term trading penal-ties that will only be offset by benefits in export markets over a longer period. This point is extensively argued in the book Microcircuits of Capital (1968, Polity Press) in which Mr

nent and other equipment sup-pliers. Crosslee, for example,

has abandoned its buy-British

policy because of currency uncertainties, purchasing motors in the US, plastics in Spain, stainless steel in France and Belgium, and switches from West Germany. Many British component producers

British component producers have established plants over-seas to be closer to their cus-tomers. GKN, the diversified engineering and services group, for instance, exports less than half as much to the

US today as in 1970, despite a 67 per cent increase in its

• The trend towards increas-

**UK** companies were

left high and dry as

foreign products flooded in on credit

Kevin Morgan and Mr Andrew Sayer, two Sussex University dons, point out that the deficit in the UK's trade in electrical and electronic goods has con-tinued to rise despite heavy investment by foreign produc-ers. In the early stages of such investment many companies have to import components and tooling equipment. position of long-term structural imbalance in areas such as computers and microchips.

Britain's endemic problems in high-volume, design-led con-sumer industries suggest that

# **Extelligence**"



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### Not so quiet Georgetown

■ Americans are getting a pleasurable thrill out of the report that Fawn Hall, Oliver North's sensationally attractive secretary and paper-shred-der, has confessed to Federal drug agents that she was a weekend cocaine user while she was enraged on very secret government work. For some residents of Georgetown, however, the news, revealed in the Washington Post yesterday, is likely to arouse more fear than p

Hall, the Post says, made her confession to agents of the Drug Enforcement Agency nearly two years ago, as part of a still unfinished investigation into drug dealing in the expensive clubs and bars fre-quented by influential Georgetowners. The pretty inner sub-urb is not quite as fashionable as it was in the Kennedy era, but it still houses far more than its share of high officials and party-givers, especially in the scandal-ridden Democratic Party.

The Democrats are already incensed about leaks from prosecutors in the Department of Justice. The leaks have been used to blacken the names of a number of senior politicians who have been involved, either directly or through their staffs, in investigations.

Now the drug enforcers appear to be leaking as well. Hall was surely not the only well-known user they questioned in their efforts to get at the dealers. What other names are going to emerge in the long, hot scandal season which Washington is already dreading?

### End to clichés

 ■ A Notice to Advisers in Contested Bids has gone up in the waiting room at the offices of the Take Over Panel. It begins: "To save time please accept that we understand

# OBSERVER

your position is as follows."
It then lists seven points, including: "Self-regulation as we know it" will end if the Executive rules against you Everything done or said by "the other side" is tactics whereas everything done or said by your side is in the interests of shareholders generally. You are astounded that a bank of the standing of "the other side's" advisers should permit itself to be acting in such a case. Either your PR man has played a very minor role and could not possibly be responsible for what has occurred or you are afraid that your PR man is new and "has been on a frolic of his own". You and your client have the greatest respect for the Panel and support the system; however, your position is becoming impossible because "one side is playing by the rules and the other is not". Everyone who is not of your view is acting in concert with "the other

side".
"On that basis," the Notice concludes, "shall we proceed with the meeting?"

### Cleaning up The Reagan Administration

began to lose the battle against pollution in 1962-83. It just gave up on it," says William L Mills. Mills should know: he was a member of the President's Council on Environmental Quality from 1983, could have stayed on under President Bush, but has since switched to the private sector. Mills is in Europe this week.

along with a team from a company called Polar Molecular Corporation of Saginaw, Michigan, to which he has become a full-time environmental consultant. PMC claims to have invented a fuel additive that not only reduces engine wear, but also improves mileage and



Diesel engines.
PMC is a smallish company, lowever, and wants to retain its independence. In this par-ticular field, it believes it is ahead of the oil and chemical majors. So the firm is making a presentation in the City

today, before going on to other

parts of Europe. It also hopes to make its mark on the track. PMC has recruited Lyn St James, America's top woman racing driver, to compete at Le Mans next weekend in her racing-prepared Ford Mustang, topped up with DurAlt.

### Girls on top

■ To declare an interest: for the past two years I have been Young Enterprise awards. The standards in this admirable scheme seem to get higher and higher, yet one is still sur-prised that so little appears to be known about it in Lon-

For the uninitiated, the scheme consists of sixth formers setting up their own company – maximum share capi-tal £150, at 25p a share – producing and marketing their goods, and seeing how they have done when they go into voluntary liquidation about eight months later. Some pay

• The UK has become a wide-

a dividend. In the last academic year over 30,000 young people par-ticipated; some 18,000 of them took the practical exam which is approved by the Department of Education and Science. About 60 per cent of them are girls. Of the 24 finalists assembled in London last Friday, competing for the top prize of a trip to look at business and industrial North Amer. and industry in North America, the girls accounted for 20. There are six such awards: the girls won them all. There is no obvious explana-tion for this. It may be the wave of the future. Lady Howe, wife of the Foreign Secretary and long-time campaigner for

equality of opportunity, gave the prizes and was obviously delighted at the results.

By no means all the participants want to go on to found their own businesses. Some of them are going into the professions. What they all get out of it, however, is a feeling for how business works. That is a great cultural change. Young Enterprise is still run

on a shoestring. It could do with a bit more financial sup-port as well as a few more advisers from industry who would give a couple of hours a week helping the young companies get off the ground. The latter applies especially to Lon-don. At present, it is the regions which are making the running. Blue Arrow and the Midland Bank are among the companies most actively help-

### Blind spot.

m Sign in a New York opti-cian's window: "IF YOU CAN'T SEE WHAT YOU WANT, YOU'VE COME TO THE RIGHT PLACE."

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**OBITUARY** 

# Ayatollah Khomeini: Islamic revolutionary

ayyid Ruhollah Mousavi Kho-meini, the Iranian leader who died on Saturday, was until 1978 a little known clergyman living in extle in Iraq. In October of that year, at the age of 76, he resettled just outside Paris and began to bring Iran's Islamic revolution to a climax. From his base in Neauphle-le-Château, he gained worldwide public attention, laid the groundwork for a revolutionary government, and through dissemination of his speeches within Iran swiftly consolidated his position as leader of the opposition to the tottering regime of Shah Reza

Pahlavi. His return to Iran in February 1979 two weeks after the Shah's humiliating departure — was triumphant. Since then he has been the towering figure of the revolution, revered by his followers and reviled abroad in equal measure. While he has often seemed removed from day-to-day affairs, his personal charisma and power - symbolised by the dark tur-ban, frowning eyebrows and full

yet Rhomeini's legacy is patchy and incomplete. He succeeded in shaking up Iran's foreign alliances, held his country together through nearly eight years of conflict with Iraq, and when the country's war effort approached collapse was reinctantly persuaded to steer it towards peace. To some extent, he galvanised islamic communities throughout the Middle East. But his efforts to create a political model worthy of emulation abroad or to spread the revolution to other countries were conspicuous by their failure. At home, he experienced constant difficulty in translating the revolution into a viable and consist-

ent government programme. By the time of his death, Iran's economy was in desperate straits, its armed forces severely weakened, its people exhausted and its political future more uncertain than at any time since the fall of the Shah.

Khomeini was born on September 24 1902 into a strongly religious family in the small town of Khomein, about 180 miles south-west of Tehran. At the age of 15 or 16, he was sent to study religion at the provincial centre of Arak and he moved to the holy city of Qom in the early 1920s. By the 1930s, Khomeini was emerg-

ing as a leading scholar. But it was not until the early 1960s that he began to play a politically active role. Khomeini mustered his followers in open protests against the Shah's so-called White Revolution, which he said aimed to destroy Islam. In June 1963, he was arrested, a move which led to rioting and bloody clashes between the Shah's forces and the opposition. Khomeini was released 10 months

later. He pursued his political activities, calling for a boycott of the elec-tions the Shah had called for October 1964. The confrontation came to a head in the second half of that year, when Khomeini led protests against a law giving American military person-nel in Iran full diplomatic immunity. He was arrested again and deported to Turkey, whence he moved to the Shia holy city of Najaf in Ireq in October

So began 14 years of exile. In Najaf, Khomeini devoted himself to teaching, writing and issuing public declarations. His activities consolidated his role as leader of Iran's religious com-munity, and won him further respect as the Shah's most outspoken critic. The period of exile served to crys-tallise Khomelni's ideas on government at a time when severe economic and social dislocation was creating a radicalised political climate within Iran. In a series of lectures in Najaf in early 1970, the Ayatollah broadened his attacks beyond the person of the Shah to the institution of monarchy itself, and called for the overthrow of the Iranian regime and its replace-ment with an Islamic state ruled

At Khomeini's death. Iran's economy was in desperate straits, its armed forces weakened, its people exhausted

either collectively by the religious leadership or by a single outstanding expert on divine law.

When serious protests against the Shah erupted in January 1978, Khomeini acted swiftly to maintain its momentum and channel protests towards the goal of establishing an Islamic Government. His move to Paris the following October, after Iraq asked him to leave, marked the deci-sive stage in the revolutionary move-ment and in Khomeini's emergence at its head, operating through a well-organised opposition movement within Iran centred on the mosques.

The Shah came under relentlessly mounting pressure, and left the country on January 16 1979. On February 1, Khomeini returned — on a specially-chartered jumbo jet packed with pressmen - to a tumultuous wel-come. Eleven days later, after bitter street fighting in Tehran, the vestiges

of monarchy finally collapsed, leaving Khomeint's appointee, a 72-year-old-moderate nationalist named Mehdi Bazargan, at the head of the first

Bazargan's eight-month premier-ship was marked by increasing differ-ences between the diverse groups which had combined to make the revolution a success, the moderates and radicals and secular and clerical forces. Khomeini, in a pattern which was to become characteristic of his leadership, did not decisively take sides in the power struggle, preferring to keep his sails trimmed to the pre-

vailing political winds.

The struggle for the soul of the revolution came to a head in November, when a group of young militants calling themselves "students following the Imam's line" occupied the US embassy in Tehran and held its staff boxtage. They demanded that the hostage. They demanded that the Shah, who had been allowed to enter the US for medical treatment, be extradited to Iran. Khomeini refused to condemn the students' action and endorsed the demand for the Shah's extradition. On November 6, the

extradition. On November 6, the Bazargan Government resigned.

The revolution now entered a new phase as Iran succumbed to a wave of anti-American feeling. The power of the clergy was consolidated when the constitution of the Islamic Republic, bestowing sweeping powers on Khomeini, was adopted in a referendum in early December 1979.

The first President of the Islamic Republic, Abolhassan Bani-Sadr, also found his power undermined by a conspicuous lack of support from

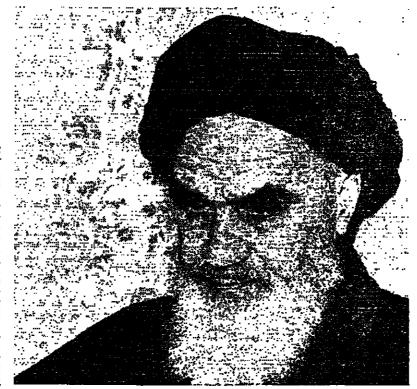
conspicuous lack of support from Khomeini and by the growth of an alternative power centre, the newly formed Islamic Republic Party.

That September saw the beginning of the most testing time for the revo-lution when Iraqi forces pushed across Iran's southern border with the aim of toppling the regime. The expec-ted collapse did not happen, and Ira-nian forces were able swiftly to bring the Iraqi advance to a halt.

But at the same time, internal dis-

sension in Iran was reaching a scale close to civil war. It came to a head in the summer of 1981. Bani-Sadr was dismissed, and the leftist People's Mujahedin Organisation planted bombs which killed more than 70 senior government and party officials. There followed a wide-ranging cam-

paign of repression against opposition forces. While the regime ruthlessly consolidated its position at home, it was also turning the tables on the battlefield against iraq. In 1982, after a series of offensives costing horrific numbers of casualties, Iranian forces finally ejected Iraqi troops from their



territory. And in July, Khomeini made the fateful decision to press on and attempt to topple his opponent President Saddam Hussein.

That choice cast the die for the next six years of the revolution, which were mainly characterised by stalemate on the war front and political deadlock at home. After the tumult of the early years, the Government entered a period of greater stability. Khomeini continued to set the broad lines of policy, but day-to-day control was exercised by a triumvirate consisting of the Prime Minister, Mir Hussein Mousavi, the President, Ali Khamenei and the increasingly powerful parliament speaker, Ali Akbar Hasheini Rafsanjani.

The relative tranquility on the surface, however, could not disguise deep-seated disagreements within the leadership about the policies of the Islamic Republic. As always, Khomeini hinself floated above the fray, intervening occasionally on one side or the other but never coming down decisively on either. The one constant appeared to be his refusal to compro-

mise over the war. In 1988, however, Tehran was forced to face up to the failure of its war effort and to the perils of a mounting confrontation with the US. On July 18 came the greatest reversal of Kho-meini's career; the decision to accept a 12-month-old call from the United Nations Security Council for a cease-fire. It was a decision which Khomeini, by now reported to be seriously ill with liver cancer, was persuaded most reluctantly to accept; in an emotional speech that week, he acknowledged that it marked a disavowal of much that he had fought for and likened the move to "taking poison."

With the end of the war, his most

cherished dream shattered. Khomeini appeared to acquiesce in Rafsanjani's acquisition of control, and his redirec-tion of Iran's foreign policy into more moderate channels. But any hopes in the West that the revolution had mellowed by the time of its 10th anniver sary in February 1989 were rudely shattered by Khomeini's decree in the same month that Mr Salman Rushdle, the British writer, should be executed for blasphemy in his novel The Satanic Verses. The proclamation provoked outrage abroad and further political turmoll at home. Not long afterwards, Khomeini sac-

Not long afterwards, Khomeini sac-rificed Ayatollah Hossein Ali Monta-zeri, his designated heir and one of his oldest and most loyal pupils. Mon-tazeri was obliged to withdraw from the succession because of his outspo-ken speeches criticising the excesses of the Government, particularly the wave of executions which followed the Gulf war ceasefire. the Gulf war ceasefire.

Montazeri's resignation took place just eight weeks before an announce-ment that Khomeini had undergone surgery to stop internal bleeding. Khomeini, who also suffered from heart problems, died this weekend. In retrospect, Khomeini's main problem in presiding over the Iranian

revolution may have been his age: to set out to create an entirely new system of government at the age of 76 would be a tall order in any circum-

His success lay in his charisma and a shrewd political brain, which helped him to hold the core of the revolution together through 10 extremely diffi-cult years; his failure in the absolute, unbending nature of his personality. What had been his greatest strength during the years of opposition became his greatest weakness in government. **LOMBARD** 

# Monetarism never found

By Samuel Brittan

credit for spotting the present UK inflationary boom long before most others, at least partly for the right reasons. The difficulty of presenting him with his Oscar is that he insists on using the award ceremony to promulgate his general system, which is more dubious. In his Monetarism Lost (Centre for Policy Studies, £8.50) Congdon is, in turn, both acute and infuriating. For instance he sneeringly remarks on page 51 that his arguments of the last few paragraphs have even been "quite difficult" (they haven't) and that that accounts for my preference for the simplicities of an EMS target. (It doesn't). Nevertheless his two main

strictures on the Treasury are justified. First there has been the regression away from rules and back towards forecasts in which money and credit are given a very subordinate role. Although Nigel Lawson has sometimes upset the Treasury and even more the Commons Treasury Committee by scoffing at the official fore-casts, his real mistake has been not putting them out to

grass – or competitive tender. Second, there has been the adoption of MO as the only monetary target to supplement the forecasts. M0 consists of notes and coins in circulation and of the very tiny amount of hankers' balances at the Bank of England. Even poor private individuals normally adjust cash to spending – for it is easy to deposit and withdraw cash from hanking institutions. It is this very facility which explains the closeness of the relationship between M0 and nominal national income. Its econometric demonstration was "no surprise and uninter-

esting."
Even as a signal of existing inflation M0 is deficient as it fails to pick up rises in the price of assets such as shares, iand or houses, which are never exchanged for coin, but which clearly affect spending. Nor does it reflect inflationary pressures diverted into

Congdon correctly observes that broad money is basically driven by credit - bank credit for M3, and building society loans as well for the newer and

TIM CONGDON deserves broader aggregate M4. He is not clear on whether it is the growth of credit itself which drives inflation, or whether it is the consequences of that credit for the money supply that matters. (Those of us who do not pretend to certainty may say that both play a role.) Congdon predicts or hopes that his paper will be dismissed as "extreme monetar-ist." No such luck. The control of the broad money supply by means of the credit counterparts (that is bank lending and the Budget deficit) in the early Thatcher years - which he wishes to restore - was dismissed by many hardline monetarists as confusing money with credit. For that very reason, Milton Friedman

washed his hands of it.

The empirical argument against going back to auto-matic reliance on broad monetary aggregates is that M3 gave hopelessly misleading signals in 1979-82, when it led to record increases in base rates on the eve of the sharpest-ever postwar recession, and indeed gave monetarism a bad name; Cong-don is not convincing that such errors can readily be avoided in the future.

The correct conclusion is surely that quoted from Charles Goodhart: that the Government was equally wrong to regard broad money as an exact determinant of national income in its early years and in its abrupt change to its later view that it had no effect at all.

Careful readers will notice that Congdon does not share the view of critics inside 10 Downing Street that the root of current UK inflation was the shadowing of the D-Mark in 1987. On the contrary, the gravest mistakes were made in 1985-86 when sterling was allowed to drop from over DM 4 to below DM 3. If sterling had been stabilised at a higher level, this would itself have exercised a counter-inflation-ary influence directly. In addition the need to maintain the higher sterling rate would have made domestic policy more cautious and inhibited the growth of credit and broad money without the need for a dogmatic view on which domestic aggregate to target

### PEG for the CAP

From Str Michael Franktin. Sir, Professor David Harvey's scheme for paying farmers income aids based on past output, the Producer Entitlement Guarantee ("A PEG for the CAP," May 25), is ingenious. It has the great merit of separating the support a farmer gets from the Government from the amount he produces. But it is a scheme unlikely to commend itself to the European Community.

Replacing all the supports of the common agricultural pol-icy (CAP) with direct payments to farmers would mean an enormous transfer of costs from consumer to taxpayer. Consumer might be pleased, but consumers - at any rate, elsewhere in Europe – are not particularly bothered about the (relatively small) farm support addition to their food bill, whereas governments want to avoid the budgetary cost of the

CAP going up.
While PEG avoids the rigidities of a quota scheme, it does not avoid the administrative complications, and hence the scope for fraud: deciding who is entitled to what payment. And differentiating according to farm size would discriminate badly against the UK,

with its larger farms.

Are direct payments unrelated to farmers output really necessary? Indeed, are they sustainable, when society is calling on farmers to do things – notably to preserve the environment and improve access to the countryside - for which society might reasonably be

expected to pay?

Both the Countryside Commission and the Country Landowsers have recently put forward ideas (FT, May 17) for extending much more widely the concept of paying for envi-ronmentally friendly farming. Substituting schemes of this kind for direct price support would have to be negotiated in

Brussels (not easy). But in principle it must be better to tie farmers' support payments to what the public wants rather than ask the public to accept straight income aids for which they might see little justification. I believe farmers would be happier with such an approach, too. Michael Franklin, 15 Galley Lane, Barnet, Hertfordshire

Impact of commission on endowment mortages

From Mr Hugh Scurfield Sir, Your leader ("Capture of a regulator", May 31) overstates the average amount which commission removes from every £1,000 of premiums on an endowment mortgage by more than three times. This

a serious distortion.

A policyholder with a 25-year endowment mortgage matur-ing now would receive a yield, ignoring tax relief, of 12 per cent on its premiums. This is with no further tax due, and after commission, expenses and death cover have all been paid for. Given the degree of security, this represents a very satisfactory return. Had there been no commissions the yield would have been increased by less than one half of 1 per cent. Life insurance companies have been operating within a maximum commission agree-ment. This held commission rates down. The Government was warned that without "this cosy agreement," as you call it, commission levels would go up

- thereby costing the con-The Department of Trade and Industry ruled that "this cosy agreement" must cease, so no one should now be sur-prised that commission levels are going up. But, given the limited impact that commission has on the overall results, mortgage endowments still represent very good value. Hugh Scurfield,

From Mr M.D. Ross
Sir, I feel that your editorial of May 31 gets it wrong by concentrating on only one aspect rather than the whole. There is, in reality, more to selling life insurance and financial advice than just the actual time involved in the selling

Equally, the mortgage mar-ket does not represent the entire market spectrum cov-ered. The responsibilities and financial burdens connected with the Financial Services Act have increased costs. Is it the cash amount or its relationship to the value of the transaction as a whole which is more important? Should an element of the expenses of one distribuof the expenses of one distribu-tion channel be highlighted in relation to another in a man-ner which could mislead? You appear to believe that it is bet-ter to put one part of the pic-ture out of the context of the whole. I do not support that

view.

The average endowment assurance premium is more likely to be of the order of between £500 and £600 a year. So your commission is overstated - hence unfair, on the overall impression given.

interestingly, at current prices, a reader going it alone (by reading the Financial Times for advice, say) would pay out \$702 over a five-year period. For an average annual investment of 2500 this repre-sents something approaching

30 per cent of the amount available for investment. One might expect a more balanced nent for that. Insurance products, besides

providing protection against early death, are a means of medium to long-term invest-ment. Surely, therefore, it is appropriate to consider all the expenses or charges involved in providing that service as a charge on the funds under nent: a deduction from the investment return earned. This would be little different from unit trusts - and bank and building society accounts, which do have expenses and charge for their services. What is different is the dis-tribution of costs. The front-

end aspect is already dealt with by the disclosure of early cash-in values given to poten-

The only real alternative to saving is not to save. Many people do need to be sold the benefits of medium to long-term saving via an effi-cient mechanism such as life insurance and pensions products rather than, for example, a building society return. The a building society return. The selling process does involve expense. So does buying the Financial Times. But the pro-cess, like that for other prod-ucts, is not always successful. Ultimately all costs have to be met out of actual sales — a point often overlooked. M.D. Ross, Scottish Widows' Fund

Myth grows from myth

price premium will disappear.

From Mr Anthony Rosen.
Sir, Mr George McRobie is correct to say that "organic food is different" (Letters, May ucing their wonderfoods and kept quiet. If enough publicity is given to the supposed bene-27).
But just because a food is "organic" or "natural" it is not necessarily better — or safer. fits of organic farming, large scale inorganic producers may be beguiled into believing it, and take up organic growing. One pound too much of (For example: comfrey, used in many herbal preparations, conorganic food for the very limtains many toxic pyrrolizidine ited market to bear, and the

Feenix Forming

caused cancers of liver and All the small organic growers bladder in animals, and illness will go bust.
At present they can choose between a difficult (but perand death in man.) The organic/non-organic haps economic), small (relatively unknown) market, or a debate is out of proportion. Those who believe in the mystical properties of organic food non-viable, non-economic large probably account for less than 3 per cent of the population. Similarly, much less than 1 per one. To believe that more than a handful of people are pre-pared to pay for the myths of magic is itself a myth. cent of Britain's farmland is devoted to organic farming, whatever definition of organic Anthony Rosen,

It would be more sensible if

alkaloids, known to have

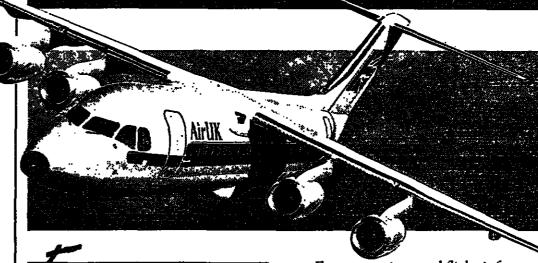
Exit here organic farmers went on prod-

From Mr James Lewis.
Sir, Mr Mandleberg (Letters June 1) writes that many voted in the original referendum "for membership of the EC pre-cisely on the grounds Mr Heath now decries: a free trade

area, pure and simple."
I stood as an Independent in the February 1974 general election on the issue of sovereignty, and I spoke for the Get Britain Out Movement in the 1975 referendum campaign. Can Mr Mandleberg not grasp the simple tenet that free trade areas are created comparatively simply by mechanisms such as Efta, the Gatt, the Ken-nedy Round, and so on? Eight million voted to extricate the UK in 1975: not a majority, but far more than have been repre-sented in Parliament. James Lewis

Dolphin Square, SWI

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# FINANCIAL TIMES

Monday June 5 1989

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Janet Bush on Wall Street

### Hedging proves a good bet

TO TALK to individual investors is to become increasingly aware of how disenchanted many of them are with the big brokers' services. It is no wonder that they are turn-ing to consultants who advise them on alternative money managers with whom to

Mr Bruce Hauptman left a career working for large bro-kerage because he felt that there was a clear conflict of interest between the drive to earn commission and the client's needs. He set up his own company, B. Hauptman & Associates of Fairfield, Iowa, which has a database of more than 800 investment managers and has more than 50 high net worth clients who have assets under management of \$150m.

Mr Hauptman believes he has found a distinctive niche: there are consultants galore for large pension funds, but few for wealthy individuals who want something more than just a mutual fund.

For these people, so-called "hedge funds" are an attractive alternative. These funds, structured as private partnerships, have three main characteris-

First, the money manager acts personally as general part-ner and is paid according to the performance of the fund: if it loses money, so will the manager. This, Mr Hauptman believes, gives the manager the incentive to do well for his clients and cuts out the conflict

Hedge funds are also more flexible. The fund can short stocks more easily than many pension funds, which are barred either by charter or choice from what they regard as speculative or complex trad-

ing strategies.
Third, hedged funds are freer to use leverage. Although mutual funds can do practically anything as long as disclosure is adequate, a lot of investors would be scared off by strategies using heavy bor-rowings to enhance potential

gains.
The relative freedom from regulatory bureaucracy and restraints on trading strate-gies, which use a mixture of futures, options and different asset allocation models, has been leading to thumping rates

A study of 63 hedge funds covering 1987 and 1988 shows that the average return of all these funds was 41.7 per cent compared with 22.6 per cent generated by the Standard & Poor's 500 including dividends and a 14.4 per cent average return on 512 equity oriented mutual funds

One leading manager, using a leveraged option strategy for his own account, made an annualised loss of 3 per cent in 1966 and an astounding 194.7 per cent return in 1987 followed by 137.3 per cent in 1988. Mr Hauptman believes it is ironic that laws such as the investment Act of 1940, written to protect individual investors have actually reduced the information available on hedged funds, which can offer high returns, but remain the preserve of sophisticated inves-

tors. Under Securities and Exchange Commission guidelines, there can be only 100 partners in each fund and each individual has to demonstrate net worth of at least \$1m.

Mr Hauptman bemoans the fact that the small investor still cannot get his hands on the best returns. That apart, though, who are his favoured

One favourite is Paramount of Stamford. Connecticut, the new institutional arbitrage account of which made an ann-ualised rate of return of 28.92 per cent in its first four months of this year. Pera-mount's Mr Jack Naiditch said that the fund makes money on announced takeover plays. avoiding arbitrage on rumoured bids as "garbitrage." Mr Naiditch believes inves tors are turning to funds which use non-traditional equity

investment to achieve rela-tively low volatility and high returns. Using options and futures, it is perfectly possible to hedge an entire market but still capture the gains.

Management of New York which has made a compounded annual rate of return over the last 13 years of 26.1 per cent on its hedge fund compared with 14.4 per cent on the S&P 500. First Security's Mr Morty Schaja stresses that their investments tend to emphasise small to medium companies

with strong free cashflow, companies which the fund tries to get to know well. Using derivative products, the fund is short of the equity market as a whole but still

invested in individual stocks.

**POLISH ELECTIONS** 

# Survey suggests big Solidarity lead

A POLISH Government opinion poll forecast a big lead for Solidarity as Poles flocked to vote yesterday in the freest elections Eastern Europe has seen since the 1940s.

In a preliminary forecast on state television, the poll said the Solidarity-led opposition would win 40 out of 55 seats in the 100-seat Senate (upper house) that were likely to be decided in the day's voting. Solidarity is expected to lose

no more than 20 per cent of its Sejm (lower house) allocation to government backed indepen-dents and Solidarity dissidents running against Mr Lech Walesa's candidates.

Solidarity is competing with official candidates for all 100 seats in the Senate and putting up 161 candidates for the 35 per cent of the lower chamber reserved for the movement under its agreement with the authorities. With polling stations closing at 10pm local time and the first

results expected later today, official spokesmen yesterday said the turnout had been high and that 30 per cent of the 27m electorate had voted by noon. Mr Janusz Onyszkiewicz from Solidarity said the day "had gone quietly and well." In Warsaw, the Polish capi-tal, queues formed at polling stations as people inside the booths struggled with a com-plex voting procedure which



Solidarity leader Lech Walesa casts his vote yesterday in Gdansk. He urged voters "don't let emotions carry you away."

of names off multiple ballot papers. Solidarity supporters sat outside the station ready to offer advice to those who were still unclear about how to vote. The authorities are heading for a fall, with many Poles both in the town and the country determined to vote against official candidates, thus possibly denying them 50 per cent of the ballot vote needed to get

Successful candidates need a

Opec ministers edge towards

agreement on raising output

valid vote on the first ballot, otherwise they have to compete in a second round of voting on June 18. John Lloyd writes from Gdansk: Voting in Solidarity's birthplace, was heavy yester-

day, with Solidarity activists at the polling stations reporting voting for their candidates as high as 80 per cent. Speaking after a Mass in St Brygita's church, near the shipyard, Mr Walesa called on

meeting at which Iran resisted any erosion of its share of Opec production, while Iraq was

given a hig increase.

Mr Aghazadeh indicated he

would support an increase in the Opec cuput ceiling but only on the basis of ensuring a

reduction in cheating on quo-tas. Kuwait has warned that it would continue to violate its quota unless it is granted what

it considers to be a realistic increase, of hundreds of thou-

sands of barrels a day. Kuwait

is producing over 1.7m barrels a day compared to its quota of

In an interview given to state television from the gar-den of his home on Saturday den of his home on Saturday night, Mr Walesa advised his supporters to vote for all but one of the 35 names on the "national list" – the group of Government and party leaders standing in a special section without opposition but, under the terms of the Round Table the terms of the Round Table accord, requiring 50 per cent of the votes cast.

all Poles to "show the world that we are responsible - don't

let emotions carry you away."

This contradicts advice given by many of his followers in the regions. In the town of Ostroda, for example, 200 kilometres north of Warsaw, Solidarity postificity were distributed. darity activists were distribut-ing cards to voters instructing them to cross off all 35 names. Government and party lead-ers fear that the activists will carry more influence. In an interview last week, Mr Jozef Czyrek, second in the party hierarchy to General Jaruzelski, said that if the national list failed to secure the required 50 per cent, it would cause a "political and constitu-tional impasse."

In an national address on Friday, General Jaruzelski called for a "broad, post-elec-tion coalition," including Soli-darity representatives, to push through economic reforms and consolidate democracy. Capitalism at Gdansk, Page 6

### **Brussels** to seek Italian steel plant

later asked for a one-year reprieve when the prospect of the loss of 2,000 jobs sparked off riots in Naples.

Sir Leon Brittan, Commissioner for competition policy, will ask his colleagues this week to sanction only a nine-month delay. That is on condi-tion that the decision to shut at a meeting of EC industry

Ministers on June 21 Italian officials had urged Brussels to delay the proposals because the collapse of their Government made it hard to take a position on such a sensitive topic. But the Commission wants Bagnoli's fate decided before the original closure

deadline of June 30.

It is unclear whether the rescue terms will win the support of West Germany, which feels Italian steel should be forced to restructure quickly. The pro-posal is designed to steer, between the Italian wish for longer delays and West Ger-man toughness. It would allow hair toughness, it would allow litaly to pay two-thirds of the L5,198bn aid after accepting the package, with the rest after Bagnoli's closure.

THE European Commission will this week call on Italy to close its Bagnoli steel smelter near Naples by next March if Rome wants EC clearance to bail out the rest of its stateowned steel industry.

Italy had promised to close the 2.7m-tonne furnace by the end of this month, the main condition for permission to proceed with a L5,198bn (\$3.6hn) rescue plan for Ilva, its state-owned steel group. It later asked for a one-year

Bagnoli is final, rather than reassessed in light of market conditions, as Italy had asked. Unanimous approval is needed for the plan, due for discussion

### By Steven Butler in Vienna closure sibly leading to a glut of oil on cations to Kuwait and the markets. Talks continued in Vienna UAE, as both have demanded. By William Dawkins in Brussels "The question of percentage shares is less important than before," he said, referring to the contentious November

OIL ministers of the Organisation of Petroleum Exporting Countries yesterday appeared to be moving toward agreement on raising the organisation's overall production ceiling by at least 1m barrels a day (b/d).

Such an accord, which would probably involve raising the permitted output ceilings of

permitted output ceilings of Kuwait and the United Arab Emirates, is thought likely to buoy oil markets, which have been concerned that ministers may fail to agree at their Vienna meeting. The markets fear that lack of a new production agreement could lead to a further deterioration in production discipling the the duction discipline by the organisation's members-currently working under a notional 18.5m b/d celling-pos-

yesterday before the official opening of the semi-annual ministerial conference today. The meeting is expected to go ahead in spite of the death of Ayatollah Khomeini, the Iranian spiritual leader.

Mr Gholamreza Aghazadeh,

Mr Gholamreza Aghazadeh, Iran's oil minister, said his government had instructed him to stay in Vienna. Mr Aghazadeh said he expected demand for Opec oil to rise by at least 1m b/d in the second half of the year, but that the question of how to allocate any increased production among Opec members had not been resolved.

However, he hinted at the ssibility of special quota allo-

# France eases immigrant laws

By lan Davidson in Paris

THE French Socialist Government has eased the rules governing foreigners resident in France, in a law steamrollered through the National

Assembly early yesterday.

The conservative opposition parties, having failed to block the new law through six days of filibuster and more than 250 delaying amendments, have is likely to be debated this

This will be the second conservative censure motion in three weeks; a motion attacking the government's European policy was defeated on May 16. The new censure motion claims that parts of the new law are unconstitutional, and argues that it will have the effect of provoking a new wave of clandestine immigration. The motion is most unlikely to secure a majority, since the

Communists are expected to abstain as they did yesterday. Still, the censure debate will be an important test of the personal resilience of Mr Jacques Chirac, leader of the RPR

Gaullist party.

Mr Chirac has been virtually silent in public since his defeat in the Presidential election a year ago; but he has now apparently decided to take his party in hand again, and to lead it in this week's censure

debate.

Debate over the new law has provoked the first really intense political clash between government and opposition since the Socialists returned to power a year ago. Breaking with traditional political etiquette, the opposition has used the debate as a platform for personal attacks on President François Mitterrand, who ded the new law.

The controversy is expected to spill over into the European Parliament election campaign, which has just opened, and may well play into the hands of the extreme right-wing National Front party, headed by Mr Jean-Marie Le Pen. Opposition politicians have

accused the government of deliberately timing the new law to maximise the embar-rassment of the conservative and Gaullist parties in the run-up to the June 18 poll. The new law makes no change in the severity of France's immigration policy. But it eases the rules and procedures which govern the treatment of foreigners resident in France.

It replaces measures intro-duced three years ago which gave the authorities a virtually free hand to expel any unwel-

### A city mourns its dead as the tanks take control

Continued from Page 1

black writing on white cloth, stood in the path of a convoy of about 50 tanks and armoured personnel carriers. About three blocks from Tiananmen. a line of 10 buses, some alight, blocked the road. Protesters threw stones at the vehicles. In really soldiers vehicles. In reply, soldiers fired indiscriminately into the

Groups of residents gathered in the labyrinthine back-streets, discussing the massa-cre of the night before in voices hushed by disbellef and

fear. It is said that during one fear. It is sain that during one of their disputes, Zhao Ziyang, the party chief, told Deng Xiaoping, that he. Zhao, had China's billion people behind him. Deng said that did not matter: he had the People's Liberation Army.

Liberation Army.
A young man who had come to the front line to look at the troops in the square said the killing was a tragedy - "per-haps it is the worst tragedy for the Chinese people." The Com-munist Party maintains that the "party commands the gun." Another young man said wryly "this is politics in com-mand." He described how two of his friends had been shot, one killed and the other seriously wounded, in the battles of the

In the small huddles in the hutongs – the back alleys – people were trying to make sense of the inexplicable. Shops were closed and their windows boarded in the main business district. Smoke hung in the air throughout the city

been too shocking for anyone in the capital to comprehend. Peking could not come terms with itself as a city under siege. For the past few weeks, Tiananmen square has been a mass of red flags and often humorous banners fluttering in the breeze. The Peking people, buoyed by the strength of numbers taking their democracy demands to the streets, had been unusually optimistic. Yesterday, that optimism was turned into shock and diche turned into shock and disbe-lief.

### WORLD WEATHER

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# Rail blast kills hundreds

Continued from Page 1

fire, Mr Cherepanov said. "At least half the people died. That means 650, maybe more." The first pictures on Soviet television last night showed horribly burned victims arriving at Chelyabinsk airport, their faces burned black and limbs crudely bandaged.
The accident occurred just

before midnight on Saturday night, on the main trans-Siberian railway line between the cities of Uía and Chelyabinsk, near the town of Asha. Tass said that "by a tragic

coincidence" the gas blast hap-pened "just as two opposite passenger trains were passing by." One train was travelling from Novosibirsk, the principal city of southern Siberia, to the Black Sea resort of Adler, near Sochi, and the other from Adler to Novosibirsk.

The gas pipeline west of Chelyabinsk is the main line carrying natural gas from the Tyu-men fields, the largest single source in the Soviet Union, and links with two others.

# Heading for a safe haven

The stock markets of Japan and France reached new peaks last week and the US, Canadian, West German and Swiss markets ended at their year's high. However, the bullishness which has swept most equity markets to levels that were unimagined at the start of the year could be tested by the weekend's events. It will be many months before the full implications of the upheaval in China and the death of Ayatol-lah Khomeini are known, but a further element of uncertainty has been added to financial markets which already seemed to have lost touch with under-lying economic fundamentals. Hong Kong is the most obvi-

ously vulnerable financial cen-tre. Its stock market had fallen tre. Its stock market had failen by close to a fifth in the fort-night leading up to this week-end, and property values already looked inflated. No one has any real idea about how the power struggle in Peking will affect the colony, but the assumption must be that the grodus of Horse Kong's skilled exodus of Hong Kong's skilled personnel and its companies will now accelerate following China's biggest upset since the Cultural revolution.

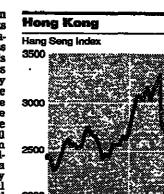
Cultural revolution.

Meanwhile, the lack of an obvious successor to Ayatollah Khomeini has injected yet more confusion into the oil market, where the price has jumped by over 50 per cent since early October. The net effect of this, combined with the uncertainty in China, will be to hasten the flood of flight money into safer political money into safer political havens. In the short term, at least, this will tend to give fur-ther impetus to both the US dollar and Wall Street. However, a further sharp appreciation in the dollar is storing up problems which will eventually come back to haunt the finan-

Media Partners

The son of News Corpora-tion, or Media Partners International(MPI) to give it its correct name, is having a difficult birth. And while it may not be stillborn, it may not be strong enough to create the sort of financial terror in the global media and communications industry intended by its proud father, Mr Rupert Mur-doch. Three months after News Corp said it was seeking to raise \$1.5bn of equity, and probably twice as much again that the launch of MPI - the primary vehicle for Mr Murloch's future acquisitions -

may have to be delayed. Although the amount expected to be raised appears to have been scaled back, MPT's



1988 sponsors still seem to be hav-ing some difficulty rounding up 40 wealthy investors prepared to chip in \$25m apiece to provide the minimum \$1bn that will enable Mr Murdoch to play the market. Given that MPT's first acquisition will be MPI's first acquisition will be News Corp's own publishing assets, which could easily cost \$1.2hn, it does not leave it a tremendous amount of finan-cial flexibility to pursue the acquisitions which are going to provide the compound rate of

return in excess of 25 per cent which is targeted for MPTs ten In terms of News Corp's immediate debt reduction strategy, the need for MPI is less pressing than it was a few months ago. US interest rates are now heading lower rather than higher, and with the sale of its Travel Information Grays to Road News Corn has Group to Reed, News Corp has raised more than \$1.6bn since the \$2.8bn Triangle acquisition seven months ago. This is well ahead of its target of \$1bn of asset sales by the end of June, and there are plenty of other properties, such as Fox Film, which could be sold if the main objective was to reduce News Corp's traditionally aggressive

However, MPI remains the however, MPI remains the key to any restructuring of News Corporation and is one of the reasons why News Corp's shares have performed so strongly recently. If MPI can live up to its heady objectives, News Corp's own shareholders chould benefit handsomely should benefit handsomely. Not only should News Corp show a profit on the sale of its publishing businesses to MPI, but the reduction in future gearing levels should improve both the level and quality of its Corp will collect a hefty annual advisory fee, and lucrative incentive payments - pro-vided MPI achieves a compound return of over 20 per cent per annum - mean that it

chits of controlling MPI while ents of convoluing hard white sharing in far less of the financial risk than in the past.

Mr Murdoch's financial and entrepreneurial flair is not in doubt. But it is hard to make a

compelling case for investing in what the Americans call a blind trust. The shares will not be easily tradeable, and Mr Murdoch's recent investment record, particularly in TV, has not been an overwhelming sucnot been an overwhelming success. What, for example, is to prevent News Corp selling its loss-making Sky TV to MPI?

In the City of London at least, there are still painful memories of Slater Walker's highly geared Dual Trust — nicknamed the Dustbin trust — set up to invest in Slater's arm estillites a couple of years. own satellites a couple of years before the stock market col-lapse. Like Mr Murdoch, Mr Slater once had a name which was near magic in stock mar-ket circles. However, the biggest shortcoming with MPI is that Mr Murdoch's family fortune is invested in News Corporation, and as long as it remains this way, anyone wanting to back Mr Murdoch would be best advised to put

### Brierley

The fact that Sir Ron Brier-ley has raised some £250m from his UK portfolio since January might suggest that he expects New Zealand's recession to start exporting itself round the world in the near future. Last time the markets delivered cheap buying oppor-tunities. Sir Ron was too highly geared to make much of them; he clearly does not wish to make the same mistake

their money where he does.

twice.
Nonetheless, the rationale behind the major sales and purchases of the past few months seems to have been less visionary than purely pragmatic: of the 80-odd holdings in the portfolio originally, the majority were mere scraps of stakes which did not add up to a coherent whole. Others – like Ultramar and English China Clays – were large enough to matter; but as bid targets, they were probably too large for comfort. And with Sir Ron's New Zealand operating companies under pressure from the aforesaid recession. any UK assets which did not pull their weight simply had to

ing money with one hand, he has been spending it with the other: on Mount Charlotte and Vickers, and last month on Union Discount, which had the merit of being cheap at the

### THE POWER TO PERFORM

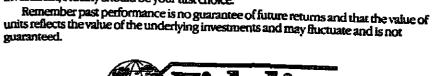
will continue to enjoy the ben-

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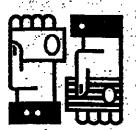
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The venture capital industry has been investing record amounts throughout Europe.

Nevertheless, prospects for the enterprise culture in the 1990s will depend on how well governments: fine-tune their policies and upon the business acumen of thousands of individual entrepreneurs, as Charles Batchelor explains here.

# A decade of enterprise

FROM some unpromising beginnings, the 1960s have turned out to be the decade of enterprise. In Britain, as in enterprise. In Britain, as in most of the developed coun-tries of the world, the evidence

prise culture has become steadily more apparent. The numbers of new busi-ness start-ups in the UK are etting new records. No fewer than 1,400 new companies are now registering for Value Added Tax each month, more than twice the average level recorded during the 1980s as a

The venture capital industry - which provides equity capi-tal to fast-growth companies has been investing record amounts throughout Europe. Much of this money is going to back the growing numbers of big company managers who want to mount buy-outs and buy-ins. So numerous are these refugees from the larger corporations that there is an acute shortage of good target compa-

of titles about entrepreneurs who have realised their amhitions. Magazines, too, which usually devote their business sections to the large Fortune 500' companies have started writing cover stories on the phenomenon of the growing

The small company has tra-ditionally played a less impor-tant role in the British econ-omy than its counterparts in many countries on the Conti-nent. Despite, or maybe because of the big business bias in the UK, it is Britain which has taken the most innovative approach to backing smaller businesses over the

Reliable figures are difficult to come by because small firms are often difficult to track, but according to one study, more access to cheaper finance. The according to one study, more access to cheaper finance. The than 96 per cent of all business to cheaper finance. The than 96 per cent of all business to cheaper finance. The than 200 people, They provide the small firms than 200 people. They provide to buy groups, is pressing for 35 per cent of all private sector, the creation of a Business are often difficult to track, but

jobs and 20 per cent of business

Eighteen years after the publication of the Bolton Committee Report, which recom-mended more help for the small business, the importance of the smaller company is now fully appreciated. So much so, in fact, that there are now clear indications that percep-tions of the small business are undergoing a second important

The small business is no longer seen as a separate, clearly identifiable organisation with only limited ambitions. Early eathuriasm for the small firm had threatened to create a ghetto mentality, cutting off these companies from the eco-

nomic mainstream. While most small companies will remain small a significant minority will outgrow this label. And even those which do not, usually count large com-panies among both their cus-tomers and their suppliers.

Government policy has moved away from providing specific help for the small company to creating a favourable economic climate for busieconomic climate for busi-nesses both large and small. The Enterprise initiative, for example, a £250m three-year programme which provides subsidised consultancy help, is available for companies employing up to 500 people, a definition which excludes only a handful of very large compaa handful of very large compa-

The message that small firms need no longer be regarded as an endangered species was confirmed by the decision earlier this year to rename the European Commission's Task Force for Small and Medium-Sized Enterprises. It is now called the Directorate General for Enterprise Policy.

This title represents both a-promotion for the unit, and, in the view of Mr Alan Mayhew, its head, an attempt to dispel the idea that there is a distinct section of the business commu-nity which needs special pro-

For all this enthusiasm for small-scale enterprise, however, the immediate future is clouded by recent sharp increases in interest rates. A Comfederation of British Indus-try report published last menth recorded a sharper decline in small firms' business over the past 6% years. Small business owners expect their costs to rise in the near future and both domestic and export

demand to decline.

The present high rates of interest have revived long-standing calls for Britain's



# Growing Businesses

wants the board to have film of capital to provide subsi-dised, fixed-rate loans to smaller companies, along the lines of the West German Reconstruction Bank, which provides small firms with cheap loans.

But the small firms sector

also has longer-term concerns about its future. The impact of

gle barrier-free European mar-ket raise important issues which many small and medium-sized businesses are unsure

how to address.

Many companies operating in fairly narrow, local markets are taking the view that they will be unaffected by the changes. But the more thoughtful business owners are considering what they need to do to open up new markets in

they already have.

Often the single market seems to have little immediate

relevance to the small business," said Mr John Parsons, a small firms representative on the British Overseas Trade Board. "But the need for smaller firms to begin prepara-tions now is every bit as changes than for larger busi-

Britain's small business community also faces changes at home in the way training and advice services are provided.
The government is setting up
Training and Enterprise Councils (TECs), employer-led
organisations which are intended to co-ordinate the pro-

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page 8.

Illustration on this page by David Worth.

local basis.

The TECs are intended to work closely with the existing network of more than 300 enterprise agencies. They will also take responsibility, on a local basis, for running the Enterprise Allowance Scheme, which bales the unemployed which helps the unemployed start in business, and the Small Firms Service, which provides advice and counsel-

The TECs are not specifi-cally aimed at the smaller company though it is these firms, which are less likely to have in-house training departments, which will be most affected by any changes. Small businesses are traditionally reluctant or unable to devote much time to training so one measure of the TEC's success will be their ability to increase the take-up of training courses by the smaller company.

The enterprise agencies, a network of more than 300 advice centres which has been created over the past decade, are also undergoing change. The Government is phasing out its support so the agencies must try to become self-financ-

ing.
There are fears that this will force the agencies to abandon their traditional role of advising unemployed people and others on how to start up in business because they cannot clients. The agencies will inevi-tably move to helping only those more established busi-nesses which can pay for their Continued on page 3



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# The biggest hurdle

of the biggest sources of difficulty for the growing compary. Small firms have a higher failure rate than established businesses, so the providers of finance are understandably cautious, But small businesses also lack the negotiating muscle to deal with the financiers and usually end up paying more for their funds.

The sharp rise in interest rates over the past year has increased financial pressures on most businesses and given an added urgency to money

The cost of money would not be such a problem for the smaller firm if Britain were prepared to emulate the Gerviding cheap-rate finance to small businesses, according to the Union of Independent Companies (UIC), a lobby group for small and mediumsized companies.

The UIC wants the UK Government to set up a Business Development Board with £1bu of public money to provide subsidised loans to smaller firms. The board, modelled on the West German Reconstruction Bank, which recycles Marshall Aid funds to small firms. provide fixed-rate finance for periods of up to 10 years, if the UIC's plan were

But until a government comes along which is prepared to back such a project, smaller companies will continue to the bulk of their finance. The banks have approaching £30bn outstanding to small firms and account for 90 per cent of all lending to this sector.

Small businesses have become the object of much of the bankers' promotional efforts in recent times. But relations between the banks and their smaller business clients have not been entirely

The past year has seen a scream of critical studies of the way banks treat small businesses. The Forum of Private Business, another small firms lobby group, has produced two reports criticising the banks for providing a poor service, for charging too much and for failing to compete.

The problem with Britain's

ically placed most emphasis on

protecting their depositors, according to Mr Martin Binks, a Nottingham University researcher who prepared the Forum reports. He contrasts this approach with the attitude of banks on the Continent and in Japan, which see themselves as intermediaries between private sector sources of finance and the business

community. The banks have been making efforts to improve their service to their business cus-

The past year has seen a stream of criticism of how banks treat small businesses, says Charles Batchelor

tomers. In February, Lloyds Bank launched a £35m programme to create small business centres in 500 of its 2,000 branches while the other ajor banks have also been training small business spe-cialists. The banks have also been trying to simplify their charges and provide more fixed interest loans which allow small firms to plan

The venture capital community has also received a fair amount of criticism in recent months. Venture capital equity finance provided by specialist investment compa-nies – has undergone rapid growth in the past 10 years and is now an important source of funds for many fastgrowth companies. Venture capitalists invested £1.39bn in 1988, 35 per cent more than in 1987.

small and early-stage busi-nesses have been rising but venture capitalists have also invested ever larger sums in management buy-outs and buy-ins. These investments have proved far more profitable than the riskier, earlystage investments and usually

The venture capitalists appear to have taken the criticism to heart. The British Ven-ture Capital Association is considering establishing a

number of new seed capital funds with between £5m and £10m of finance each to specialise in helping very early stage ventures in fields such as the bio-sciences and medical products to get started.

One response to the profes-sional venture capitalists' move to larger and safer investments has come from ocal authorit ies and enterprise agencies around the country which have set up small, local venture capital and Business Expansion Scheme funds.

A third source of finance for the growing company is factoring. The factoring industry has been promoting itself more aggressively over the past year or so as a method of financing business without disposing of shares (as is the case with venture capital) and without the need to pledge all one's worldly possessions as security (as is often the case

Factors provide a three-fold service. They can take over the administration of a company's sales ledger, sending out invoices and making sure bills are paid on time; they can provide immediate cash worth up to 85 per cent of their client's invoices; and they can assess credit risks and provide credit

Many companies regard factoring as unduly expensive factors charge a percentage of turnover for their services but for many companies it is the only way to finance growth. A total of 5,180 com-panies with combined sales of 58.8bn made use of the services of the 10 members of the

### Amex extends services

AMERICAN EXPRESS, long established as an expenses manager for large companies, is extending its services to small businesses as well. For the first time, Amex is tailoring a range of benefits aimed at companies with turnovers of up to about £1m. Initially four services are being introduced exclusively

American Express cards. These are: disability insurance, giving automatic accident disability cover of up to £20,000 for all staff who are

Association of British Factors

An increasing number of small businesses are doing without the services of the professional providers of finance altogether and are turning to private individuals

'Business angels,' as private investors are known in the US, have twice as much money available for investment than the professional US venture capital industry, according to

Private investors, many of whom have business experience with larger businesses, often seek both a part-time involvement in the management of the companies in which they invest as well as moviding equity and loan capital. Business angels are usually willing to take a far more long-term view of their investments than are banks or venture capital funds,

Enterprise agencies around Britain have set up "marriage bureaux" to bring together private investors and small firms seeking up to £150,000 through newsletters and meetings at which the companies present their business plans. Fifteen agencies have formed a national network called LINC so that businessmen can meet restors from other parts of

the country. Some providers of finance claim that no worthwhile business venture need suffer because of a lack of funds. But there are too many examples of ultimately successful businesses which have faced enormous difficulties in their early days in raising finance for this argument to be convincing.

company card members; a travel service; a hotel booking service with corporate discounts offering savings of up to 40 per cent; annual management reports for use in accounting, budget planning and reviewing expenses policy According to Amex, 48,000 small businesses use its com-

pany cards. Mr John Petersen, general for small companies which use manager, says: "We are aiming to provide the type of services that leave entrepreneurs free to get on with making their business a success."

Government schemes for small businesses

# No easy answers

BACKING BIG business such as steel, car manufacturing and shipbuilding cost the Brit ish Government (and other governments around the world) billions of pounds throughout the 1970s.

In comparison, the sums that have been devoted to the small business sector in the 1980s have been modest - but, in the UK, the Government has

Small business support chemes have been probe their effectiveness and their contribution to the economy. Two of the main programmes introduced in the early 1980s the Enterprise Allowance Scheme and the Loan Guarantee Scheme – won encourag-ing notices in a recent review by the National Audit Office, an independent scrutineer of government spending.

A third programme, the Enterprise Initiative, is too new to have undergone serious public scrutiny, though the controls built into the programme testify to the Govern ment's concern to get value for money. Both the the Enterprise Allowance and the Loan Guarantee Scheme were introduced in 1981, a bonus year for the small firms sector.

At that time, reducing the large numbers of the unemployed had a high priority while the problems small businesses had in raising finance was also a source of major con-cern. Unemployment has since fallen and far more finance is now available, but the two programmes have been main-

The Enterprise Allowance Scheme provides £40 a week for a year to unemployed neo ple who want to start a busi-

The aim is to compensate people for the loss of unemployment or supplementary benefit while they are setting up in business. Effectively, it legalised people who would otherwise have been tempted to work "black" while claiming

participants, they must put £1,000 of their own money into has grown to employ 110 pecthe business, though this can take the form of a loan or a ple and produce turnover of bank overdraft. A total of 330,000 people had taken part in the scheme in the slx years to April 1988, at a cost of



Mr John Cope, Employment Minister, meets managers of

How successful are the businesses set up under the scheme? The National Audit Office review found that 57 per cent of businesses formed were still in operation after three years. This survival rate is lower than 68 per cent achieved by businesses which register for VAT, but given that some of the Enterprise Allowance companies may have been set up by people des-perate to get off the dole, a higher percentage of failures is

perhaps to be expected. Two-thirds of the comp set up under the scheme do not create jobs for anyone other than the founder, while only four per cent accounted for more than 60 per cent of all the jobs created, Training Agency studies have shown.

This skewing of job creation to a small minority of firms is not peculiar to the Enterprise Allowance Scheme, however. Other studies of small busisses have shown a minority of firms create most of the

One Enterprise Allowance business which has made a maior contribution to lobs is Superior Cleaning Specialists of Whitley Bay, Tyne and Wear, Starting with a contract to clean British Telecom's phone boxes in Edinburgh, Mr David Rafferty, then 33, set up his company in early 1987. Within two years his business

Unlike the Enterprise Allowance Scheme, which has remained in its original format since it was launched, the Loan Guarantee Scheme has

constant tinkering. Designed to provide a government guarantee for loans to companies which would otherwise not win backing, the scheme was forced to pay out large sums as many early businesses it financed went bust. The terms of the guarantee

were tightened up - and demand plummeted. Conditions have since been eased again - the guarantee covers 70 per cent of the loan for a m of 3 per cent — but lemand has never recovered to the early levels. An average of 600 applications are now being made each quarter for the guarantee, but this compares with around 1,500 applications in the scheme's earlier years.

A total of 21,000 small firms have been lent more than £700m under the scheme, including some notable suc-cesses such as Sock Shop, the specialist retailer, and Waterstone's, the bookshop chain. But the likelihood is that the scheme will make a much more modest contribution to financing small business in the future. Compared with overall levels of bank lending, its con-

tribution is small. The launch of the Enterorise Initiative in January 1988 reflected a shift in government thinking away from backing the start-up business towards help for the more established

The Enterprise Initiative provides subsidised management consultancy advice in six areas: design, marketing, quality management, manufacturing methods, business planning and financial and

tiative pays half the cost (two-thirds in assisted and urban programme areas) of between five and 15 days of a consul-

The Government has ambitious targets for the programme. It aims to help between 1,000 and 1,500 compa

nies a month over three years at a cost of £250m. Demand appears strong enough to meet these targets though aspects of the scheme have come in for criticism. Some people doubt whether consultants can provide mean ingful help at the fee levels laid down by the government and whether small businesses can make proper use of consul-

But Mr Austin Smith, co-founder of a building surveyors' partnership, Hogben Smith Barritt, says the initiative helped him install a proper management structure with the problems of rapid growth.

tancy advice.

The partnership, which employed 120 people in 12 offices round the country. established a management board and sub-committees to handle questions such as finance. client development

and personnel Backing small business is a difficult task for governments. The small business-owner is suspicious of involving civil servants in his affairs. The greatest success seems to come from schemes which do not come direct from government but which are filtered through intermediaries such as banks

Charles Batchelo

# WHEN DID YOU LAST RISK GOING ON HOLIDAY?

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### **EXPANDING ABROAD**

# **Export fears unfounded**

export department in many small companies, according to

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es fix.

that exporting is regarded by many as an optional extra which can be run on a shoestring. And yet, as Europe moves towards 1992 and the creation of a single barrier free market, it is becoming harder for the growing business to ignore export markets. The ignore export markets: The experts say companies should start treating all their European business as a part of "domestic sales."

Many small businesses are discouraged about selling abroad by what they see as the additional complications of dealing in a foreign language, in unfamiliar currenctes and with different tax and payments systems.

Some respond to the occasome respont to the occa-sional export inquiry, but never go on to develop signifi-cant overseas sales. Others do not even neply to inquiries from potential customers abroat.

But if more small companies

But if more small companies could be persuaded to take up exporting seriously, a large reduction would be achieved in Britain's growing trade deficit. A survey carried out by the British Overseas Trade Board in 1937 revealed that only half of the 12 000 British companies. m 1987 revealed that only half of the 12,000 British companies with turnover of between 11m and 110m were exporting and only one third of these - 2,000 companies - had a properly thought-out export strategy.

If the 4,000 "passive" exporters could be persuaded to become more active. British

become more active, Britain could increase its exports by more than 25bn a year, the

report said:

Finance was top of the list of to long delays.

Companies which build up a companies which build up a export worries expressed by the companies polled in this survey. However, while compa-nies often do have to extend their credit terms when dealing with overseas customers, regular exporters say that their experience of delayed pay-ments or had debts is no worse with foreign customers than

with those at home. Also high among the con-cerns of would-be exporters were a lack of information about potential markets and a fear that their products would not be suitable

Gathering market information about specialised market segments can be time-consuming but a wealth of information on more general trends is speak foreign languages are available free or at a low cost convinced, they owe their suctrom government, agencies, cass and their knowledge of chambers of commerce, the foreign markets and customers press and export clubs. More detailed information is provided, for a fee, by market to the language.

"If I talk to my French customers in their own language, my message is undiluted," says Mr Jack Garbett, sales many message is undiluted, agent for F Dreb & Company

one product the manufacturer can test the market for others. Modifications made for overseas markets may spin off benefits for products sold in the

appears complex to the company unfamiliar with selling information. One small Biroverseas, though life has become somewhat easier since claised machine tooling built small companies,
seasthed exporting consultants

- just look for the Portakabin
in the tar park, they say.
This is a clear indication
that exporting is regarded by
more than 100 national degreements, and covers all the documents, and covers all the docu-mentation needed by customs in the European Community and many other countries. still have to provide a number

> If only more small companies could be persuaded to take up exporting seriously, there would be a large reduction in Britain's

Documentary letters of credit are recommended as a means of ensuring payment from new customers or from less stable parts of the world, though the exporter must take great care to fill them in cor-

letter of credit and other docu-ments used in the transaction can lead to the bank refusing to sanction payment and lead

sizeable export business usually acquire the expertise to handle exports in-house, but the newcomer may be advised to use a freight forwarder or export agent to handle the paperwork. Freight forwarders typically charge between 2.5 and 5 per cent of the total freight cost for their services.

Many companies build up a large grount breiness without large export business without

the world of business has per-suaded many businessmen that they need not bother acquiring foreign language skills.

But businessmen who do

research organisations.

Products may well have to Mr Jack Garbett, sales manbe medified to conform to local ager for F. Drake & Company, regulations and local tastes a Huddersfield-based supplier abroad, but by beginning with of yarns and textile products. "I hear their reactions and know exactly what they have

# A decade of enterprise

Continued from Page 1

But a more widespread view among the agencies is that by rationalising the network, merging agencies which over lap in the same town, and by allocating specific tasks to certain agencies, they will be able to provide both a cost-effective and more professional service than in the past.

Standards vary between the agencies and scarce manage-ment skills could be used more efficiently if they could be con-centrated on a smaller number

It is not only the enterprise agencies which are facing pressures to rationalise. The whole network of government and private sector small firms advice agencies has grown to such an extent that potential clients are confused about who to turn to, some critics say.

Local Authorities, the Gov-roment's Small Firms Service, the enterprise agencies, innovation centres and, most recently, government business shops (which help with queries on tax and social security matters) all offer help to the

The Association of Independent Businesses, a lobby group, has called for a single nation-wide network of High Street advice centres modelled on the Citizens' Advice Bureaux, to cut through this confusion.

The Government may have moved away from policies specifically aimed at helping small firms, but it did recently decide to continue two of its programmes which have done most for small business. They were the Enterprise Allowance Scheme, which provides £40 a week for a year to help the oyed set up in busines and the Loan Guarantee Scheme, which gives a govern-ment guarantee for bank loans to small businesses which do not meet conventional banking Export documentation agent, distributor or the cus-

trade deficit

of other documents for the cus-tomer and the banks involved in financing the deal. Involces will be needed, though it should be noted that they do not automatically trigger pay-ment by the customer in many countries.

countries.
Certificates of origin, available from the larger chambers of commerce, are required for many countries in Africa and the Middle East.

Discrepancies between the

ever speaking a word of their overseas customer's language. The pre-eminence of English in

Without a knowledge of his customer's language, the exporter is dependent on his

criteria.

Both were extended last year after passing the scrutiny of by the National Audit Office, which monitors government

The Enterprise Allowance Scheme has been criticised for providing only cursory training to those who join it but it has helped a large number of people since it was introduced in 1981 for only a moderate

The Loan Guarantee Schen has had a more chequered his-tory. Many of the early loans-were not repaid because the banks had little experience of dealing with this category of customer. Bank managers are still reluctant to lend under the scheme because of the offi-cial paperwork involved but the number of guaranteed loans made has increased

The Business Expansion Scheme (BES) has largely lost its role of channelling private funds into smaller com since the changes amounced in the 1988/89 budget. These restrict to only 2500,000 the amount individual companies can raise through the Scheme though companies providing property for rent may raise up

The result of these budget changes has been that 95 per cent of BES finance now goes to property ventures, leaving very little over for the small trading or manufacturing com-

The growing business sector is considerably more robust than it was at the start of the 1980s, though the smaller company still has a failure rate far in excess of that of the larger, more established busines One-in-three small firms can expect to go bust within the first three years though this failure rate is halved if the founder takes advice and trainin the strong growth in the number of small companies in recent years. Little attention has been-paid, however, to a decline in the number of medium-sized businesses.

employing up 99 people rose from 69,000 in 1970 to 125,000 in 1986, according to the Census of Production. In contrast, the or Production. In contrast, the number of firms employing between 100 and 499 people fell from 5,100 to under 3,700.

This may in part be due to the country's very active merg-

20 per cent of its £1m turnover.

The company's managing director signed up with a local language school for a two-month intensive French course and was so successful in polishing up his schoolboy French that he was able to deal directly with his customers in directly with his customers in their own language. Most of the business was retained; new business gained; and the Bir-mingham company even took on the UK agency for a French company making complemen-tary products.

Finance, documentation, languages — the list of skills to be mastered does appear formidated ble. But very few companies will be able to ignore the impact of 1992, even if most of their business at present is with least gratement. with local customer For even if the British basinessman ignores the opportu-nities of overseas markets, his

foreign competitors are unlikely to ignore the UK. Charles Batchelor

mingham manufacturer of spe-cialised machine tooling built-up a profitable business in France until a dispute arose with its agent in Paris. The agency agreement was ended and the British company faced losing business amounting to

BRITAIN'S small business renaissance has been reflected

In manufacturing, for example, the number of companies

ers market which ensures that when small firms reach a certain size they are taken over by larger companies. But it also results from problems many small firms face in managing growth.

The entrepreneurial skills

The entrepreneurial skills required to set up in business and survive the first few years are very different from those needed to handle expansion up to 200 or 500 employees. Some businesses mismanage growth and go under. A greater number opt for the simple life and mark time once they have reached a certain size.

"It is clear to us that the second stage in creating an enterprise culture has to be a focus on growth," says Prof. Stan Metcalfe, chairman of a study group examining the barriers to growth for smaller companies which has been set up by the Advisory Council on Science and Technology.

"It is not enough to spin off increasing numbers of small firms if they are not of suffi-

firms if they are not of suffi-

### MANAGING GROWTH

# A fair share of the problems

An awareness of this prob-lem is already reflected in a shift in the emphasis of gov-ernment programmes towards the established and growing small company. The Enterprise Initiative, which provides sub-sidised consultancy for companies employing up to 500 peo-ple, targets subjects such as quality control, financial man-agement and business planning, all of particular concern

nmg, all of particular concern for the growing business. A common problem facing such companies occurs when the founder of the business plays such a dominant role that a proper management structure does not develop. Managers and directors may be appointed but the real decisionsare taken by the person who started the business.

Mr Roy Phillips, founder of Roy's Cooked Meats, played just such a role up the point where his Swansea-based bosiwhere his Swansea-based business was acquired by Cliffords
Dairies, a publicly-quoted company, in August 1987. Under
Mr Phillips Roy's Cooked
Meats had grown in 22 years to
turnover of £7m and a workforce of 150 people.
Cliffords called in Ashridge
Management College, a business school based in Berkhamsted. Hertfordshire. to

hamsted, Hertfordshire, to

cient size to throw their weight around in international marment at Roy's. Ashridge's Ms Julia Pokora said: "The old management team was very much centred round Roy. All the decisions and the disputes came to him rather than to his managers."

This not only meant that other managers failed to develop their skills in running the business but that Mr Phillips was unable to find the time required for long-term planning. Part of the answer at Roy's,

Part of the answer at Roy's, now renamed Roy's Quality Foods, was to appoint separate managers to three of the company's divisions which had previously been operated as one and to move to a system of weekly rather than quarterly performance reviews. performance reviews. Even where there is a more broadly based management

structure, growth can frequently lead to a gap opening up between managers and the workforce. Rapid Recall, a supplier of computer hardware systems based in High Wyconbe, Bucks, ran into differentiate when received. ficulties when growing competitive pressure forced it to switch the emphasis of its business away from supplying equipment to providing consul-

tancy and other services.

Despite efforts by Rapid Recall to explain the reasons for change to its employees it found they had not grasped the need for the new direction the company was taking, and were dragging their feet. Even more worrying was the gap which had opened up between the firm's three directors and its four general managers.

The managers complained they were not being given enough responsibility. The directors, for their part, felt the managers were not competent enough to be given greater powers, says Mr Jim White, managing director of the £47m. turnover company which employs 240 people. Senior managers at Rapid

Recall were taken on a two-day workshop in what Ashridge calls its "team-working" approach to management. Managers are taught to work more closely not just with each other but with any other person inside or outside their company who can help solve a parpany who can help solve a par-ticular problem. Rapid Recall set about improving its com-munications with employees through meetings, a newsletter and notice boards and devoted

and notice boards and devoted more time to explaining what it was doing and listening to its employees' views.

Strengthening the manage-ment of the growing business frequently means recruiting managers from outside the company. This is not always easy for the smaller company.

terms of the large corporations when planning their careers.

"It is difficult for the very small company to offer an attractive package," says Mr John Kennair, managing director of Romag Holdings, of Blay don, Tyne and Wear, which makes toughened glass products. Romag, which achieved a 46 per cent increase in turn-over to £5m last year, has nevertheless reached a size at which it can offer a share option scheme and a profitsharing scheme to the direc-

tors of its subsidiaries. A major problem facing the growing company which seeks to recruit managers is the lack of an obvious career structure. In compensation, however, the smaller company can offer young managers more respon-sibility and more direct links

with senior management than the large corporation.

The particular challenge of handling growth is that it is a never-ending process. Once the issues associated with one stage of growth have been tackled, the company will have moved on to the next stage Despite the apparent failure of many small firms to grow to medium-size, however, a number are adopting innovative solutions to the challenge.

**Charles Batchelor** 

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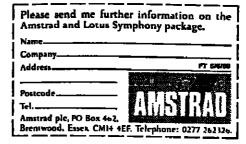
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# Difficult decisions

Cross in south-east London. The company has 740 employ-

ees, a turnover of £25m and

claims to be the largest sign-

Mr Pearce is now devoting a

great deal of thought to groom-

ing his son, Nicholas, aged 30,

for the succession. Mr Pearce

insists that it is not automatic

that his son will head the com-

pany, but he is being given experience on the managerial

accountant, went on to become personal assistant to his father

then spent a period in sales

before becoming general man-ager for the Kent region. His career development has been

handed over to Pearce's man-

Mr Pearce Snr says that, in terms of working relationships, he has no more to do with his

son than he would with anyone else in that position though

Nicholas does take part in more company functions than would a non-family manager.

A major problem facing com-panies such as this is that tra-

ditional training methods for managers do not take into

account the special problems of

the family-run business. The conventional management

school approach can provoke

conflict once the student

He would go back, having learned a lot of theory and tell his father he was not running

the company properly, says Laurence Handy, MBA pro-

gramme director at Ashridge Management College. Ashridge

has devised a course which

while not expressly designed for the family company man-

ager, does involve the student

in a project related to his own

Clive Cutler, aged 43, took the Ashridge course as part of

his grooming to become chair-man of Pearce & Cutler Group,

a Birmingham-based company

engaged in glass processing and the manufacture of curtain

walling. Despite having quali-

fied as a chartered accountant.

and spending 20 years with the

family company, Mr Cutler says he felt he needed formal

aging director.

Nicholas first qualified as an

maker in Europe.

governments to aid the growing company has been hased on the assumption that, whatever else it may lack, the business has youth and vigour. The reality, though, is that many small companies are run by elderly men whose main preoccupation is how to arrange a transfer of the business to

younger management. For all the growth in interest in secondary stock markets throughout Europe, the number of listed companies is small compared with their private, usually family-owned counterparts. The challenge facing these companies is how to secure their future while at the same time maintaining family

Tales of dissolute eldest sons dissipating the family fortune are generally the stuff of fiction, but on a more humdrum level many fathers face difficult decisions about bringing

Securing the future of many family

companies raises complex issues,

**Charles Batchelor** 

their children into the family

Succession has often been seen as a tax question though recent British budgets have removed some of the stings of inheritance taxes. But even more important are the management issues involved. How should the new head of the company be selected? Should he (or she) come from the family or from outside?

How should the new man or woman be trained and brought into the company? And how can the interest and loyalty of non-family managers be retained if they know they can never take over the most senior job?

It is questions like these which have been concerning Brian Pearce, now 57, and the to head Pearce Signs, a sign- business with nearly 500

Group expands into Europe

VIKKI STACE, formerly a marketing and publicity director with a large publishing house, started her own public relations business in London with what she calls a "one woman plus secretary business — the Powerhouse Group — has seen rapid expansion and now has three companies within one group, specialising in corporate affairs and consume marketing, European Community affairs, national and local government and the publishing industry.

The group has offices in Brussels and Paris and expects to increase turnover by 50 per cent this year. appointed as public relations consultancy to the planned Sunday newspaper, The Sunday Correspondent.

Powerhouse Europe has linked up recently with John D. Wood Commercial and Jeffcote Donnison International, chartered accountants, to set up a European advisory group for companies seeking to make the best of marketing opportunities in 1992 and

Although the Powerhouse accounts are handled "at the most senior level," this factor,

employees and sales of £21m.

"If we are to go to the Unlisted Securities Market, I

have to have credibility," he says. "Twenty years' experi-

ence in a private company is not enough and I have to put that right."

have spent five years in a dif-

ferent business working with people who did not know he

Transferring control of a company from one generation

to the next is not always a smooth process - "there can

often be savage battles," warns John Stanworth, a small busi-ness specialist at Central Lon-

To ease the change-over at

Pearce & Cutler, Clive Cutler's father brought in Mr John Given, a Scotsman with wide

don Polytechnic.

was the son of the chairma

Ideally, he adds, he would



Vikid Stace: "Finding the right balance in a growing business is

In turn, highlights one of the most common management issues which small businesses run into: how does the key generator of a business disengage from the executive level to take on the time-consuming duties of owner/chairman of an

temporary non-executive chair-

Sometimes, it is the new gen-

eration which wants a safety device built into the change-

over. When Mr Anthony Poeton returned from running his

sidiary to take over as manag

ing director in Britain, he

asked for someone to be appointed to arbitrate in any

disputes. A mediator was appointed from the firm's audi-

tors, but there were no dis-

putes and after three years the

terms of reference were set

down in a formal contract of

employment with A.T.Poeton, a manufacturer of surface coat-

ings which has sales of £4m and 140 employees.

Just as important as ensur-

Mr Poeton also insisted his

arrangement was ended.

expanding company?
"Finding the balance is not easy when clients consider you synonymous with the company," says Vikki Stace, who invested at an early stage in a comprehensive management structure for the expanding group.

the family fit in well is the

question of how to motivate

magers who are not mem bers of the family. A start can be made by only appointing family members who would have made it on their merits anyway - how-ever difficult it is for a father to be dispassionate about his childrens' qualities. The owners must also make sure that only the family is seen to be benefit ting from the company's suc-

Some accountants and men chant bankers who deal with private companies believe that in Britain at least the tradi tion of passing on the family company to successive genera-tions may be weakening. It is so easy now to arrange the sale or flotation of a private company that more families in future will take out their money rather than stay to olve the problems, they say. But, despite the fact that

stock market listings and cor-porate sales have reached record levels in recent years, family ties are strong. The fam-ily business has proved a dura-ble institution in the past and

seems likely to remain so for a

QUALITY MANAGEMENT

# Increasing pressure to improve products

business often identifies more closely with his or her products or services than the manager of the larger company. Yet relatively few small com-panies adopt a coherent approach to the question of

Quality management tends to be neglected because few companies know how to go about it, beyond checking the finished items as they come off the production line, and because its impact on profit margins is difficult to gauge.

increasingly, however, pressure is being put on the businessman by his customers and by the law-makers to improve quality. Large companies in the automotive and retail fields, for example, and public sector organisations such as the Ministry of Defence and the National Health Service already insist their suppliers meet prescribed quality stan-

Britain's adoption in February 1988 of the European Community directive on stricter product liability has given added urgency to the quality issue. Under the Consumer Protection Act of 1987, customers no longer have to prove negligence to stand a chance of successfully suing a company. These trends have given a

boost to British Standard 5750, which lays down how a company should organise itself to maximise efficiency and quality. Introduced in 1979. BS5750 made slow progress in its early years but has now been opproved for use with some ,000 companies and new registrations are running at the rate of 1,500 a year.

In the early days quality systems were seen as the pre-serve of the larger company but, increasingly, smaller com-panies are starting to see the benefits. However, introducing a proper quality system can be

a proper quality system can be painful and costly.

JR & E Russell, a Wednesbury-based joinery company with sales of just over £4m and a workforce of about 145 people, went through a very difficult six months after obtaining BS5750 approval in August 1986. The workforce became so thorough in checking quality that production fell sharply: The company, the first join-ery concern to win BS5750 approval, plunged into the red in 1986 though as the work-force became familiar with the new quality system it recovered and is once again profit-

BS5750, and its international

ucts or services. They apply only to the way a company manages its business activities. They set standards for every area of activity, from purchasing to despatch, from design control to training schemes.

The aim is to replace quality inspection at the end of the production line with a system of quality assurance through every stage of production. The most difficult and expensive stage to remedy a fault is when the product is almost ready for shipment or, even worse, when it has been delivered to the customer. It is far better to pre-vent faults occurring in the first place, the theory goe

A key element in quality assurance is the quality manual. This need not be a thick volume but it should lay down who is responsible for doing each job and when, where and how the work is to be done. A system for correcting faults is crucial to improving

Quality systems, once seen as the preserve of larger companies, are being used by smailer companies as they see the benefits.

quality. It should not only remedy the immediate defect but also lay down what needs to be done to prevent it recurring. This can range from reviewing purchasing methods if defec-tive raw materials are being bought to changing the way instruments are calibrated if they are not achieving the required standards of accu-

icy. For JD Krouse, an Oxfordshire engineering company with sales of £1.25m and a workforce of just under 40, quality assurance has meant the introduction of strict procedures for handling incoming orders. The company compares the order with the job for which it quoted and checks that the issue numbers of drawings tally. These simple if time-consuming procedures not re-designed the part with-out telling Krouse - a process which could double the amount of work involved and lead to the customer refusing to pay.

Krouse has also numbered

and catalogued all its tools and production aids. Previously, it was not uncommon for hours to be wasted while a worker hunted for a drill jig or a turnstored away under a work-

Gaining BS5750 approval can be a lengthy and exhausting process for a company, particularly a small one which has no experience of setting down formai control systems. Krouse spent 18 months preparing itself, and according to Mr John Krouse, managing direc-tor, this put considerable strain on the management and

Krouse's managers had budgeted £33,300 to obtain BS5750 approval, including £28,000 worth of management and other labour costs. The final cost, after taking into account a 5 per cent contingency allowance and inflation, was just under £36,500.

Once a company has gained approval it is regularly inspected to ensure that it maintains standards, HTEC, a Southampton-based manufacturer of computer and telecom munications equipment with 125 employees and sales of £8.6m, says the inspectors come for a day and pick out one aspect of the business for

close scrutiny.

Companies which let quality slip are given a second chance to tighten up controls. But if they fail to act on the inspectors' criticisms they may be delisted, a fate which befalls five or six companies a year. Is all the pain worth it? Get-

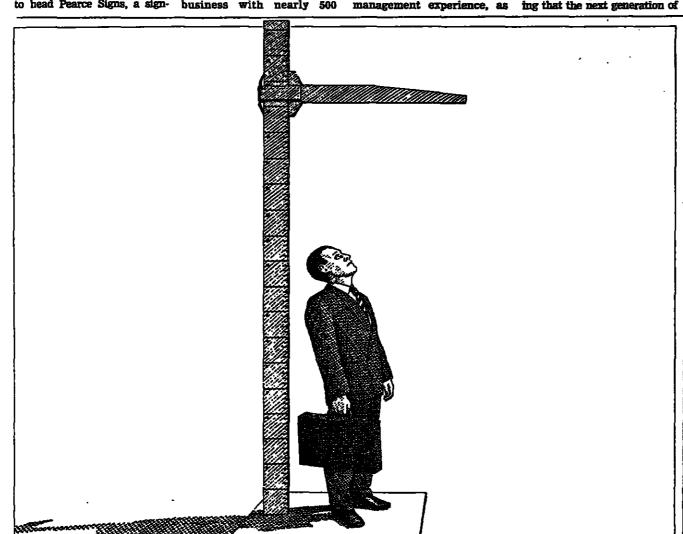
ting companies to pinpoint the precise benefits of anality assurance is not easy because often market conditions have changed or other factors are no onger comparable.

For Russell, gaining BS approval helped win orders and new customers and allowed the company to diversify into the manufacture of hotel bedroom furniture, according to Mr Gordon Bates,

managing director. HTEC also points to winning orders it would otherwise not have gained, including one from a French customer. So results that it has extended quality approval from its computer products to its telecommunications products.

For its part, Krouse is finding that many of its customers including a number of large companies, are taking an interest in the idea of quality assurance. As far as it knows though no other joinery com-pany has obtained B\$5750 approval. Attitudes to quality are changing but there is still a ong way to go.

**Charles Batchelor** 



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# Case Study: Cascade Biochem

# Trying to find the right staff

DEREK CLISSOLD, 44-year-old founder of Cascade Biochem, faces a problem common to many entrepreneurs in young

high-technology businesses.
His knowledge of his product
makes it essential for him to
spend much of his time at his laboratory bench. At the same time, the demands of his rapidly growing business require him to get out and meet customers, to follow up enquiries and to produce a catalogue of his company's

"I don't think that two years down the road I should still be in there in a white coat putting things into vials," he says. But the only way for him to get away from the laboratory bench is to recruit

more staff.
Finding people who
understand what he is doing
is difficult, however. It is also

expensive.
"I really need one other good person," he says. "I know the people but they would want \$20,000 to £25,000 a year." An alternative way of rewarding and motivating his staff is to offer them shares so his main partner is to become a shareholder with a 10 per cent stake in the company in July.

Working from two laboratories at Reading University, Mr Clissold has produced more than 100 different products. Cascade specialises in making mediators — chemicals which are implicated in causing inflammatory and allergic illnesses such as arthritis, asthma and rheumatism.

use Cascade's mediators as target practice for the drugs they are developing to combat or alleviate these conditions. Cascade achieved a pre-tax profit of £37,000 on turnover of £86,000 in its first full year to December, 1988, and currently employs four people including Mr Clissold's wife, who does the administration,

Pharmaceutical companies

at Cascade.
Mr Clissold spent 13 years
working for large American
pharmaceutical companies
before deciding to strike out on his own. He was head of the British process research and development team for Eli Lilly, a US group, when he started working on the mediators he now produces. He came to Reading University to do post-doctoral

studies though with the idea in his mind that he would like to start his own busin At about the time that he was setting up his business, Mr Chissold followed a part-time Firmstart small business training course, spread over six months at London Business School. This course gave Mr Clissold and his 15 fellow students a grounding in subjects such as marketing, finance and personnel issues.

Mr Clissold initially named

his company Chiral Organics, a term which meant something to chemists like himself — but very little to the bio-chemists who, it turned out, were his main customers. So he changed the name to Cascade changed the name in Cascade Biochem — a reference to the cascade of effects which lead to a particular disease — and found readier market

acceptance.
"I wouldn't recommend changing your company's name," he comments. "You have to notify your customers, your suppliers and you have

to change your bank account."
Cascade ships a good
percentage of its production
overseas, but it is now starting to concentrate on the US market. Mr Clissold has appointed Oxford Biomedical earch, a US group, as a distributor for the US market. The two sides have yet to meet, though they have been in contact by telephone and fax. Mr Clissold believes there is great potential in the US for his products.



Derek Clissold: facing a common problem

remises at Reading University. The part of the campus where he is based has been sold to a Japanes university and Cascade may have to move. This would mean the

company no longer had access to the university library, which allows Mr Clissold to keep up to date on the latest developments in his field. Nor would he have the convenience

"I have the horrors about having to work in my garage again," says Mr Clissold. He is looking, however, at the possibility of moving to another university. Unfortunately, the problem of finding new premises represents yet another distraction from the task of expanding the business

"I just don't have time to

grapple with all these things."

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# A fresh sense of urgency in Europe

THE small business cause in Europe has finally completed its long march towards becoming a fully fledged priority for the European Community

Earlier this year, the European Commission signalled the importance it now gives to small and medium enterprises (SMEs) by turning the task force that used to fight their case in Brussels into a full directorate general.

The new organisation, known as DG23, has also taken responsibility for the clearly related retail trade and tour-ism sectors, formerly handled by other Commission depart-

The change is not just cosmetic. It gives those in charge of SMEs in Brussels useful political clout in the crucial run-up to the creation of a sin-gle market, with all the rewards and challenges which 1992 holds for small business. Importantly, it makes them less dependent on the goodwill ments. Indeed, the Commission is still alive to the perennial debate over the correct balance between special assistance, via an SME industrial policy, or simply forging on with deregu-lation to improve the environ-

ment for risk-taking.
It is too early to say how Mr Antonio Cardoso e Cunha, the new Commissioner for SMEs, will stamp his centre-right political opinions onto small business policy. However, he has made no bones about his eagerness for deregulation, a theme clearly supported by Mr Alan Mayhew, the former head of the SME task force, now in charge of DG23 and its enlarged staff of 75.

EC small business policy has developed in two main directions since late 1986, when European Governments agreed for the first time on a formal policy for the sector. They are to improve the regulatory environment on the one hand and to provide the kind of SME assistance - mainly advice and specialist finance - that

the market is unable to supply. The task force's first step on the business environment front was to scrutinise the EC authorities' own rules and procedures to minimise needless red tape, a practice carried on embraced enthusiastically by the Thatcher Government in

the UK. For the past four years, every piece of Commission leg-islation has had to carry a note stating its impact on business and cleared by DG23.
"It is of more value than peo

ple outside think. This persuades people who write regu lations to write fewer – and to write them more efficiently," says Mr Mayhew. Meanwhile, DG23 does not win all its internal battles against red tape, but it is spreading its influ-



The Prince of Wales visiting local development projects in Moss Side. Manchester, where he also met executives of enterprise agencies and Business in the Community.

The Commission has been busy issuing positively deregulatory proposals, as well as hacking away at its own undergrowth of red tape. It is proud of its proposal to simplify the application of EC accounting rules for SMEs, now awaiting member states' approval. Oth-ers include a plan to allow one-person enterprises to assume limited liability, a priv-ilege currently denied to the self-employed in Britain, Spain, Greece Italy and Ireland This is also awaiting EC Govern-

Brussels has meanwhile issued a recommendation that individual Governments should emulate its own anti-

red tape procedures. "Burdens on business often arise from national implementing legislation, rather than EC directives themselves," says a Commission report on SME

policy. EC recommendations have no legal force, but this is offered as ammunition for national politicians keen to

Another proposal due to emerge from DG23 soon would encourage public purchasing authorities to make it easier for small businesses to bid for

Existing EC measures, in varying stages of agreement, already help by obliging purchasing bodies to open con-tracts to free competition. The new proposals would add to that by encouraging public authorities to divide contracts into small lots where possible.

The SME team is also participating in a draft directive — yet to be tabled by the Com-mission — to simplify and harmonise rules for calculating taxable profits, which will

treamlined tax provisions for SMEs. The other mainstream of EC small business policy, the pro-vision of services, consists chiefly of advice offered through various international networks, and the provision of finance.

Some of the EC's collaborative research programmes make a point of attracting small business participants. The Brite industrial research and Esprit information technology schemes both claim that 20 per cent of their participants are small businesses. However, critics point out that bulk of the cash in Esprit, the biggest EC-backed research project, still goes to the elite of Europe's top electronics com-

The centre-piece of the EC's small business advisory services is the two-year-old system of Euro Info Centres Euroguichets. Implanted in local organisations such as chambers of commerce or enterprise agencies, they use EC databases to provide information about any Community issue of interest to small busi-

The 40 centres in the project's pilot phase, which has just ended, also swap informa-tion about each other's countries. A Birmingham-based business, for example, can tap to find out whether its exports would comply with Spanish standards.

The project, with a Ecu10m budget this year, is about to be expanded to 200 centres across Europe. They are expected to become financially self-supporting after three years, funded from their own charges and private sector help.

"We are quite prepared to help existing organisations get started, but we want to stay out of the subsidies game. We want to avoid further distortions of competition between these organisations," says Mr

A separate networking scheme, called BC-Net in Eurojargon, opened last October as a kind of computer dating service.' Co-ordinated from DG23's headquarters in Brussels, it offers a confidential database of potential sub-contracting opportunities, joint ventures, or takeover candidates in dif-ferent EC countries.

The 6,000 to 7,000 company profiles in the system are made available to 400 professional consultants across Europe, screened by DG23. They use the information to advise small business clients on possible

cross border link-ups.

The Commission is currently to considering expanding the system to the US, Japan and the six members of the European Free Trade Association. They have asked to join and Mr May-hew feels this might greatly benefit EC small businesses ability to seek international links beyond the Community.

A related 'marriage guidance service' is the so-called Euro-partnership scheme. This provides conferences to bring contractors and investors to meet potential business partners, identified through BC-Net, in less economically developed

regions.
The first, in Dublin last year, produced results for 60 per cent of the companies involved. The next one takes place June 22-23 in Torremolinos, in the southern Spanish region of Andalucia, where 220 local businesses and up to 150 from the rest of Europe are expected

Brussels also provides help for the establishment of small business advisory agencies in regions struggling to recover from the decline of traditional industries like steel and coal The 24 Commission-backed Business and Innovation Centres (BICs) provide start-up premises, with on the spot training and financial advice.

Here, Brussels tries to confine itself to helping to bring together local organisations to form a BIC, rather than providing a long term operating sub-sidy, in line with its hands-off policy towards Euroguichets. In practice, it has proved hard

draw the line. Moving away from advisory services, the Commission also has a battery of financial assis-tance schemes at its disposal. By far the largest is the 10-year-old New Community Instrument (NCI), where the EC uses its triple-A credit rating to borrow in world markets on the finest terms and on-lend cheaply to small companies.

At present, NCI lending is distributed in tranches, managed by the European invest-ment Bank in Luxembourg, which uses national banks to channel the funds to the ulti-mate small business clients. EC Governments are considering plans to turn the NCI into a permanent ECu6bn revolving

At a much more detailed level, the EC's Venture Con-sort Scheme and Eurotech capital schemes offers equity backing for technology co-operation between small firms across borders, usually channeled through financial intermedi-aries in individual countries.

The Commission's latest initiative in this area is an experimental Ecu2m per year seed capital fund, launched last October, to provide interestfree loans for up to 24 nation-ally organised funds wishing to back very early stage start-ups.

The European Venture Capital Association estimates that less than 1 per cent of the Ecu2.9bn invested in risk capi-tal in the EC in 1987 went into seed projects, a sign of the high costs and uncertainty

Italy's small companies

# Lynchpin of the economy

THE SUCCESS of Italian small and medium-sized businesses over the last two decades has surprised most foreigners and many Italians. Notwithstanding the fundamental restructaring which has restored most large Italian private companies to rude financial health, it is this sector which is the lynchpin of the economy in terms of employment and a crucial pillar of the nation's xport performance.

There are several reasons why nearly 60 per cent of those in employment in Italy work in companies with pay rolls of less than 100, and why such companies account for 26 per cent of manufacturing

one is that the small, private family company is an ideal expression of that side of Italian culture which is entreeneurial, independent and oyal to both birthplace and

With their miniscule lines of communication between the single padrone, members of his family and the directly employed workforce, small businesses have proved immensely flexible in solving problems associated with changing markets, technology and product development.

Many activities are grouped in specific locations – light engineering in Milan, textiles in Biella and shoe manufacturing north of Barl – where they operate in a sort of collaborative competition, often sharing information on and experience of markets and pro-cesses. Moreover as suppliers of components and services to major manufacturers, Italian small businesses are under constant pressure to raise quality and productivity and to increase the pace of innova-

Nevertheless, leaders of small and medium businesses in Italy think there is nothing ularly in view of the sharper competition they expect to encounter in the single European market after 1992. They acknowledge that their sector is not properly addressing crucial requirements such as management organisation and product development, but they also complain that successive governments have failed to supply both the direct support which is available in other countries and indirect support in the shape of inter-nationally competitive interest rates, bureaucratic procedures and public services.

"Old problems remain almost unchanged and have come to represent an increasingly onerous burden with which it will be difficult to compete in the single Euro-pean market," was how Mr Franco Muscara, one of the leaders of Italy's small busi-ness sector, summed up the situation at a recent conference organised by Confindus-tria, the main organisation representing Italian industry. In a recent report from Mil-

an's Bocconi University, Prof. Giuliano Mussati argues that the single market offers, in macroeconomic terms, more advantages to large scale companies, and that, as a result, Italy needs to fill the existing void in its battery of public policies by developing specific supports for smaller firms.

He argues that small businesses, particularly those with fewer than 200 employees. while still performing well, are in fact falling behind big-ger companies in terms of value added as a proportion of both gross profits and invest-

This is partly a reflection of the productive and technologi-cal restructuring carried out by the large companies, but also a sign that small businesses are struggling to adapt to the technological and commercial requirements of changing markets.

Recent surveys suggest that small companies with less than 100 employees are innovating at well below the

are drawn from mothers, part-timers, immigrants and older

people who are demanding

more benefits such as health

care, parental leave, child-care

On the most fundamental

level, the biggest fight is over the minimum wage mandated

by federal law. The current

level of \$3.35 an hour had been unchanged during the eight years of Reagan Administra-

tions even though consumer

prices had risen more than 40

per cent.
Congress wants to raise it in

and flexible working hours.

Trends in the small business sector reflect the general economic cycle, reports Roderick Oram

# Signs of a slowdown in the US

AFTER RAPID growth this decade during the longest ever post-war economic expansion, the US small business sector is beginning to feel the first pains

The number of new businesses incorporated last year dipped slightly from a year earwill affect the valuable relationships you have with to a record high last year -but they grew more slowly H&H Factors are responsive, and flexible. Small to medium sized business finance is our speciality-and than wages and earnings for the first time since the boom

began in 1982.
To a large extent, these trends reflect the general economic cycle. As a recent report from the Small Business Administration, the federal government agency responsi-ble for the sector, said such a slowdown is a leading eco-nomic indicator pointing to a recession in the next three to six months. Although forecasters are split on when the US will experience its next reces-sion, the economy is already slowing down to a pace and

pattern less favourable to small business. Tightness of labour markets is the most obvious problem in some parts of the country. Many small businesses, always at a disadvantage compared big employers when it comes to hiring people or passing on higher costs to customers, are finding it hard to get the staff

they need.
"The general economic outlook has been declining for some time and is now more negative than any time since the 1980s," said Mr William Dennis, senior research fellow in economics at the National

Federation of Independent

Yet despite the clouds gathering on the horizon, entrepre-neurs "are generally more optimistic about their own situation," he added.

This may reflect the fact that small business owners now enjoy fuller, more sophisticated and more accessible belo for their companies than ever before thanks to significant structural developments in the sector during the 1980s.

Thus, for example, most size-able communities in the US now boast a wide range of services, such as liaison groups, to introduce entrepreneurs to venture capitalists, consultants (often in the small business practices of major accounting firms) and new business incubators. The last facility, often run by universities, offer entrepreneurs premises and help to start up their own companies. Typical of this trend is the

Baltimore-Washington-Richmond, Virginia, corridor which has experienced explosive growth in small businesses.
"Since the early 1980s we

have developed enough of these organisations to have critical mass and self-feeding development of new busi-nesses, said Dr Mark Spikell, co-founder of the enterprise centre at George Mason Uni-versity in the Virginia suburbs

of Washington.
"There is enough interest and expertise to help in the founding of new businesses. This is happening in more places in the US than ever before and it means we are getting young companies off to a much stronger start." These new elements of infrastructure are likely to be last-ing testaments to the boom

which saw the number of non-farm small businesses in the US climb 46 per cent to 19m in 1988 from 13m in 1982. The number of businesses incorporated last year dipped, however, to 684,109 from 685,572. The national figure masked a diverse regional pat-tern with the mid-west (states

such as Illinois, Minnesota, Michigan and Ohio) enjoying a 5.4 per cent growth. In contrast, the south central region experienced an 8.6 per cent decline, mostly because of acute difficulties in the energy

and real estate sectors in Louisiana and Texas.

"The regional differences are extraordinary," said Mr Dennis of the NFIB. "The east coast is going crazy because employers can't find the people to work." The problem is most acute in

New England where labour shortages are causing a slow-down in the small business sector - "You simply cannot find the people...there are just no more bodies left."

Mr Thomas Gray, chief economist of the SBA, has direct personal experience of the trend from his home town of Portsmouth, New Hampshire. Its monthly unemployment rate has often been the lowest in the country over the p

two years at around 1 to 11/2

"My friends up there say there are two problems with employees — you've got to catch them and keep them," he says. Although he has seen a big increase around the coun-try in, for example, retail sales forces, he thinks some employ-ers are hoarding labour rather

than hiring to meet current demand. 073 Tight labour markets hurt small businesses in several ways, notably rising wages and "a poorer quality of new employees which affects pro-ductivity," Mr Gray says. "My main message to small businesses is that they must

focus on anything they can to increase productivity."

The realisation appears to be sinking in with capital spending by the sector running at a brisk pace as businesses substitute to some extent machinery

they cannot get.

The trend might be one explanation for the heavy demand from small businesses

and equipment for the workers

for loan guarantees from the SBA. The guarantees are usually for longer term loans for capital expenditures which banks are less willing to make without some protection.
"It could be that small busi-

nesses are expanding and looking to the longer term," Mr Gray believes, despite the eco-nomic slowdown. Overall, he is forecasting a

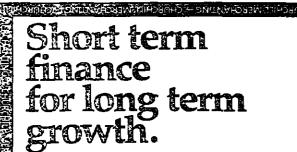
difficult year for the sector. Wage escalation, for example, and other cost pressures could push down profits for the first time since the boom began -"It will be a more negative year than any other in the past

Another threat to profitability are the wide ranging issues of welfare and other employment benefits. There is a sharp debate between small businesses and lobby groups over what employers should be required by law to provide. The issues are coming into

stages to around \$4.55 over the next three years, but President George Bush has said he will veto any increase to more than \$4.25 an hour The Bush stand fits the

Administration's policy of focussing more on macro economic policies conducive to business generally, rather than launching into elaborate new programm

Even if the President does prevail, small businesses will face a host of other financial pressure which mark the beginning of the end of a long period of heady expansion for the sector.



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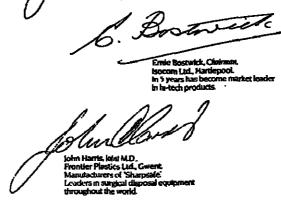
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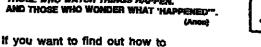
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# A striking turnaround

JAPAN'S relatively obscure small businesses have startled most analysts by making a striking turnsround in the face of the sharp appreciation of the yen and are now riding high on a wave of economic prosperity.

Delying dire predictions, the

country's small and mediumsized companies, many of The cutlery makers of Tsu-which were export-dependent bame are only a very small and therefore severely hurt by a much higher yen, successfully restructured or diversi-fied into new areas.

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The northern town of Tsubame, for example, the home of countless small and medium-sized companies that specialized in manufacturing cutlery for export, witnessed a town-wide diversification move in the wake of the yen's rise that sformed an entire regional

When the higher yen began to hurt, the small businesses in Tsubane, rather than cling stubbornly to their old trade and give in to the inevitable closures and bankruptcies, switched over, one by one, to making interior fittings that were more likely to find demand on the domestic mar-ket

panies, from family-run con-cerns to larger, more sophisti-cated operations, are doing a thriving business supported by the domestic construction boom of the past few years. In terms of the number of es and the number of people they employ, small and the foundation of Japan's econ-

Over 99 per cent of all busi-nesses in Japan are small and medium-sized enterprises. They make up 99.8 per cent of the retailing sector and a substantial proportion of the con-struction industry, of wholesal-ers and of manufacturers.

part of the country's small business sector, but their recovery after the yen's surge exemplifies the remarkable ability to adapt quickly to changing trends that is the major source of strength for

small businesses in Japan.
In many other countries, a potentially devastating change in the environment such as a major revaluation of the country's currency, would lead to some kind of political action, some and of pointical action, says Mr Northiro Yokoyama, an official in the Small and Medium Enterprise Agency of the Ministry of International Trade and Industry, (Mit).

"In Japan it leads instead to individual initiatives to

restructure." he says.
Small companies, which lack
the financial and human resources of the big and power-ful large corporations, have found such initiative and flexi-hility absolutely crucial to their survival even in times of relative economic stability.

In this respect, they are well trained to be innovative and adaptable by an intensely competitive domestic market and highly demanding corporate clients with which they generally have very close ties.

"Japanese subcontractors try

porate clients, even if it is not

Those demands range from price cuts to reductions in orders when times are bad, to product changes that could require substantial technological improvements.

In return, the subcontractor is assured of a fairly reliable flow of orders, or if a cut becomes necessary during a slump, of more orders when

It is a "live and let live" situ-ation that forces them to keep making improvements since even in a relationship of mutual dependence, the small company always faces the prospect of being cut off.
The smaller, family-run con-

cerns operate on even more flexible terms. When times are slow and it becomes impossible to keep the business going, shop for a while and members take up work elsewhere until the outlook improves and they can open their business again. It is this environment, Mr Yokoyama says, that has raised the technological level of Japan's small businesses. Under these demanding circumstances, small businesses must keep adapting and improving their technology if they are to survive. Govern-ment policy is also geared towards encouraging adaptabil-

small concerns with less than in the contract," says Mr adequate financial stability Yokoyama of Miti. need a certain amount of protection from environmental changes that could easily threaten their existence, the Government can only help them in their own efforts to

> So, while there are several measures aimed at financing businesses or helping them to find some form of financing for themselves, there is very little in terms of subsidy given to small businesses.

Financial assistance is mainly provided in the form of low interest loans to support companies' efforts to diversify or restructure into new businesses, to assist in expending their business abroad and in

their business abroad and in acquiring new technology or developing new products.

Aid is provided to the vari-ous industry associations to support efforts to acquire new skills or develop new products.

But the Government does not attempt to rescue a trou-bled region or industry that cannot face up to changes to some extent on their own.

The steel towns in the north and the small businesses making Christmas tree decorations which could not respond quickly enough to their chang-ing environment, thus no longer exist.
The most that the Govern-

ment can and will do is to try and minimise the damaging businesses.

Japanese legislation aimed changes by enacting legislature aimed at giving small



More than 90 per cent of Jepan's retailing sector is made up of small and medium-sized enterprises. Above: the Nakamise-Don Avenue shopping street in Assituse, a district of Tokyo.

businesses the assistance they need to tide over the transi-

An emergency law was established, for example, at the time of the yen's sharp rise to give financial assistance to businesses trying to reduce their dependency on exports. The introduction this April of a new 3 per cent consump-tion tax, also prompted emer-gency measures to help small businesses make the necessary

adjustments and to ensure that they would be able to pass on the tax to customers rather than pay for it themselves.

Another group of legislation, which has become controversial lately, is intended to make

sure small businesses are able to exist even in the face of

One such law, the Large Store Law, is aimed at enabling small stores to co-exist side by side with any larger store opening up in the neigh-

Under the Large Store Law, any store over a certain capacity that applies to open near smaller stores must, in effect, hourhood shooning street assoing large stores from opening or at preventing change, says Mr Yokoyama of Miti — "the

point is to let the forces of

change work smoothly." However, the US and other foreign governments see it as a harrier to imports because it is more difficult to get imports into small stores than large

The sharp rise in starting-up costs for small business in Japan, due to the need for increasingly sophisticated com-munications and other hightech equipment and the recent rise in land prices, mean that it is increasingly difficult to start

This is changing an impor-tant characteristic of small businesses, which is that they

fail Nowadays, while the num-ber of small businesses that go bankrupt has not changed so much, the number of new small businesses that are set up has fallen.

A lack of successors in small another serious problem, according to the Tokyo Chamber of Commerce. The high price of land often makes it impossible for the next genera-tion to take over the business due to high inheritance taxes

> Michiyo Nakamoto in Tokyo

HONG KONG

# Keeping it in the family

HONG KONG'S brand of laissez-faire capitalism has provided a perfect environ-ment for the small businessman, allowing the territory's entrepreneurial spirit to flour-ish against the backdrop of a good legal framework, a mini-mun of bureaucratic interfer-

To help the thousands of businesses which spring up tion systems, and making information types without any special schemes to encourage them. each year without any special schemes to encourage them the Government has provided training, market research and testing services to industry rather than the financial incentives and grants seen in-

some countries.

The individual with his small husiness forms the back-bone of the Hong kong econ-omy in spite of the territory's ascendency as one of the wealthiest areas in Asia.

A survey of the manufactur-ing sector carried out in the third quarter of 1988 showed that 232,000 people worked in establishments of less than 20 employees out of a total workforce of 844,060. More than half worked in companies with

less than 200 people.

In the wholesale, retail and import-export trades, 294,000 out of a total of 517,000 employees worked in companies with less than nine

employees.
"You don't have to do anything to encourage it," com-mented Mr Harry Garlick, assistant director for local affairs at the Hong Kong chamber of commerce, which has members ranging from the

has members ranging from the giant trading hongs to hun-dreds of smaller companies.

"Inside every Hong Kong youngster is an entrepreneur bursting to get out," said Mr Simon Tam, lecturer at Hong Kong University's department of management studies.

"Hong Kong has a reverse of the Jeneneur model, where

"Hong Kong has a reverse of the Japanese model, where companies tend to get higger and bigger, with a disintegrative tendency in evidence. In Hong Kong we don't have a separation of ownership from management," he pointed out.

"The Chinese tend to see the company as a family property. Within a typical Chinese enterprise decision making power tends to be monopolised by the head of the family, and hired managers thus tend to want to break away from their companies and set up their

companies and set up their

SE

own, often taking a number of clients with them.
"As a result many appar-ently new small businesses. have been operating for some time, with people running their own businesses on the side while serving as an employee. Networks are already in place, and the initial capital is horrowed from friends and relatives," he said.

Mr Tam contrasted this with the US, "where you first have an idea, make a plan and go to the bank for backing. The banks in Hong Kong come in at a later stage when a new business has established a track record, often taking

property as collateral."
Mr Donald Taylor, deputy
executive director of the Hong Kong productivity council, argued that this general absence of available formation risk capital does hinder growth, and said banks should do more to back entrepreneurs

in the early stages.

The productivity council is a government offshoot with an annual badget of about HK\$160m, helping the development of new processes and technologies in industry with

tor on a commercial basis for the design and manufacture of sophisticated tools, helping to bring new technologies such as surface treatments and specialist coatings to the terri-tory. It also features training in computer eided manufacturing and design, both of which
are playing an increasingly
important role locally.

"Most of our work is
focussed on industry related
businesses," said Mr Taylor.

"Although services to industry now make up about 40 per cent of total clients there is

cent of total clients there is not a specific goal of hi tech, but rather a better use of technology in order to move into higher value added sectors.

"Hong Kong doesn't necessarily need hi tech," said hir Taylor. "We support the growth of process-based industries." The work of the productivity council is complemented by the vocational training council, which operates a management development centre seeking to develop' skills seeking to develop skills

seeking to develop skills among managers and make them ready for the challenges that growth will bring.

Certainty growth is in evidence in most sectors given Hong Kong's boom conditions, and there are countiess opportunities for those with a send

and there are countiess opportunities for those with a good
idea to start up businesses.

Mr Garlick pointed out that
there is a high failure rate,
with almost all liquidations on
a voluntary basis.

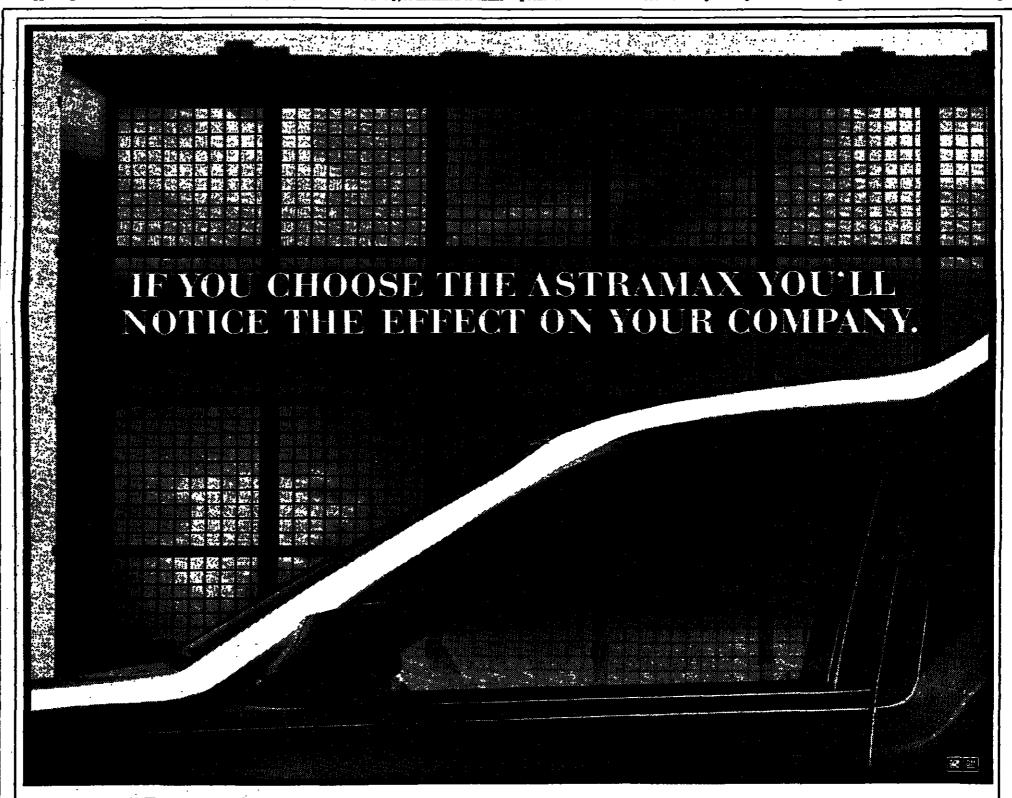
"One of the great strengths
of the Hong Kong entrepreneur is not only that he knows
a good thing when he sees it,
but also that he knows a bad
thing when he sees it,
Mr Garlick argued.

He said this willingness to
get out of one area and try
sumsthing different is one of
the great lessons of the Hong
Kong success story. In the

the great lessons of the Hong Kong success story. In the small retail sector the con-stant renovation of shops is testimony to the constant changes of strategy by owners, with video rental shops, laser disc stores and four hour photo processing outlets some of the favourites.

In the manufacturing sector the move into China to take advantage of lower labour rates has opened up a range of opportunities for Hong Kong opportunities for Hong Kong businessmen. Among the younger generation there is a noticeable tendency to become salaried employees, particularly as many return from abroad with qualifications, but no one doubts that the next conception of successful lucigeneration of successful businesamen are ready to maintain the Hong Kong success story.
"Businessman is still a term of respect in Hong Kong," Mr Garlick said, something which cannot always be said of many

other societies.



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Continued from page 6 national average while the sec-tor as a whole has been much less successful than large companies in simultaneously modernising production procasses, products and company organisations.

In Prof. Mussati's view, the exporting advantage of Clexi-bility which small businesses have been derlying from not developing commercial struc-tures abroad could become a handicap in future global markets where success will require more solid organisa-

Their other great operating and development problem is the cost of finance and the difficulty of obtaining cheap. medium term investment

The present Italian Minister for Industry. Mr Adolfo Bat-taglia, has been struggling for two years to put together a framework law which would strengthen the small businesses' response to the prob-lems of innovation and financ-

After taking months to clear dles, final approval by the cab-inet has now been delayed by the political crisis which broke on May 19 with the resigna-tion of Mr Ciriaco De Mita's

Mr Zattaglia's proposals encourage the start up of new companies and their initial research and development; tax credits to encourage busiesses to step up their R&D expenditures; credits for the arquisition of advanced machinery, information systems and scientific equipment; incentives for the creation of consortia both for the acquisition of equipment and raw materials and also for the setting up of shared distribution systems and joint partici-pation in bidding for con-tracts.

The plan also seeks to encourage the creation of closed investment funds as well as venture capital funds and participatory loans.

John Wyles in Rome

lan Hamilton Fazey on changes in back-up for small and growing businesses in the UK

# Where to go for help

THE most important change to the sources of help for small and growing businesses in the UK is now on the way - the Government expects the Training and Enterprise Councils (TECs) to play a central role in entrepreneurial development and link closely with the national array of 300 enterprise

At the same time, the Gov-ernment's Small Firms Service (SFS), will become less active in the help it gives. It means that the trend towards making the enterprise agencies the main starting point and source of help for small businesses is likely to move to its logical

likely to move to its logical conclusion – the agencies will become closer to one-stop shops for help and advice.

Mr John Cope, the Employment Minister, told a conference of enterprise agency chairman in April that the SFS will stop offering free counselling and subsidised consulling and subsidised consul-tancy for small businesses as the TECs are set up under the control of industry and com-merce over the next three

The SFS has long operated and promoted two linked types of service for small business, one offering well-packaged information and the other using consultants to visit businesses and advise them on solving problems and how to grow. The consultants are often highly experienced

retired managers Mr Cope says the informa-tion side of the SFS will con-tinue and will be based in regional offices but that he wants the TECs to be responsi-ble for making sure that counselling support for small businesses in their areas will be sufficient

Each TEC will decide whether to hire individual counsellors and to choose where to get them from However, the Government expects the local enterprise agency, not the SFS, to be the first thing to spring to people's minds.

Mr Cope emphasises this: "I hope all of the TECs will have

a relationship with the local enterprise agencies and will contract with them for provi-sion of counselling in their areas for their areas. This provision will be one criteria Gov-ernment will look for when awarding a contract for a



Mr Michael Winwood (left), director of the Bristol-based New Work Trust Enterprise Agency, was one of the speakers who joined the Small Firms Minister, Mr John Cope, (right), at the relaunch of the Government's Loans Gua

rationalisation in the enter-

prise agency movement itself.
As Mr Cope admits: "There

is a considerable amount of overlap of provision and confu-

sion in the minds of the punt-ers. The TEC concept builds on

a lot of what is happening

already. TECs may encourage enterprise agencies to merge or

encourage them to adopt a

wider coverage in some areas." Will this affect small busi-

ness in a noticeable way? One change may well be that while advice to small businesses has

usually been free, the new regime may well see the agen-cies charging for their services. This in turn could change

some attitudes among the

agencies' sponsors.

Many local authorities have

sponsored agencies on condi-tion that all advice is free. As

non-commercial, non-profit-

making bodies they fill a pub-lic service role and small busi-

nesses owners are not deterred from calling in. Some local

authority sponsors are there-fore considering whether to continue to support the agen-cies if they become fee-charg-

Some private sector sponsors are also worried about how much the agencies should "go commercial," operating beyond nursery levels of care for small business that are unable in

business that are unable ini-tially to pay much for advice. A movement towards charged

consultancy for the growing business, as will happen as the SFS role in this area is sub-

sumed, is seen as a radical

The question is what will

TECs were launched on the private sector by the Prime Minister in February, Approximately 80 are expected in England and Wales with another 20 in Scotland. Each will be led by the private sector and will be given funds for industrial and enterprise train-ing in areas containing a total workforce of about 250,000.

The TECs will take over the running of the Youth Training Scheme, Employment Training, the Enterprise Allowance Scheme and are expected to develop small business training services. The Government has asked industry and inter-ested parties to form groups and bid for TEC contracts. Bids are already going to the Department of Employment.

The chairmen's conference, sponsored by Business in the Community (BiC) and Shell, was called to debate the future of Britain's network of more than 300 enterprise agencies, which over the last 10 years have increasingly been a prime and growing source of advice for small businesses.

Mr Cope says that the agen-cies, which are all partnerships between public and private sectors, can stay independent if they wish, but the consensus of their chairmen seems to be that it will be strategically critical for them to become part of

the TECs.
There is little doubt that this is what the Government wants. The TECs are also expected to resolve a wide range of demarcation problems in the area of advisory services for small business, as well assisting

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happen if agencies start undercutting their own sponsors in

BiC, however, is to launch a

become agency sponsors.

The aim will be to raise the level of private sector sponsor

To get more out of the agencies, networking might see an agency specialising in certain types of counselling – such as obtaining venture capital or in export marketing – and being fed with clients by its neigh-bours, each of which would

IRENE DAVIES became bored

with her job and decided to start up in business on her

own. In the space of five years

her workforce has risen from one to 36 and she is forecasting

turnover of more than £1.5m

There is nothing unusual

about that, except that the

business she went into was

metal fabrication and Spencer

Construction and Engineering

now claims to be the largest

manufacturer of steel storage tanks and silos in south-east

Mrs Davies, 45, does not get involved in the manufacturing

rocess, though her partne Mr Albert Snoddy, is a skilled plater. Her husband, Vernon, a

former docker, also works in

the factory. Mrs Davies' contri-

bution has been a deceptively relaxed management style

an industry with few if any

After an early career which included a spell as a temporary shorthand typist for the Cuban embassy and as a buyer for the

Cuban national airline, she joined Mr Snoddy and another partner in setting up a metals

fabrication business. At its peak this company employed 60 people. But after 11 years Mrs Davies became bored and

set up on her own with £300 of

capital and one skilled worker.
A year or so later, the other
company went into liquidation
and Mr Snoddy joined Spencer

Mrs Davies started in 1984 in

her brother-in-law's back yard in Plaistow, east London. The

company began making plat-

forms and staircases for

to making silos, pipelines, storage tanks and jetties for many

Newham council but moved on

which has brought succ

fields such as accountancy services and business consultancy or if other sponsors find that agency clients are becoming

national advertising and tele-phone sales campaign to persuade many more mediumsized and smaller businesses to

- which comes at present mainly from the largest 200 companies in the UK - from 235m a year to 250m. The extra money will offset the phasingout of government support, which has helped the number of agencies expand from three to 300 in only 11 years.

offer different expertise.

The big sponsors certainly

want more co-ordination, as want more co-ordination, as has just been proved on Merseyside where an experiment called Liverpool Enterprise has just got off the ground. It will have a chief executive and small staff to co-ordinate the work of five different enterprise and training agencies in

already being committed, with a promise of £10,000 from United Biscuits, another leadontied hiscoits, another leading national sponsor of the enterprise agency movement.

This would seem to suggest that although the role of the agencies is going to change and develop, they are going to become increasingly central in terms of small business advice.

The characteristic that all the seemiles share is that they

the city.

gramme.

First-year funding of £60,000 will be met largely by IBM, the

computer group, which is pro-viding £20,000, and Barclays Bank, which is contributing

£10,000. Lloyds Bank has

offered £2,500 plus a secondee, and this level of private sector commitment has encouraged

Merseyside's City Action Team

to ask the Government for

£27,500 from the urban pro-

Second year sponsorship is

the agencies share is that they are part of the general network of professional services and advice which small businesses can tap into. Accountants, solicitors and bank managers all know them, as do local authority industrial develop-

> Most are able to take the leg work and brainwork out of searching for where to go for the best advice, saving time and worry for small business people wondering whether

ment officers and civil se

they are on the right track.
However, the role of the agencies and, eventually, the TECs, will not impinge on the Government's enterprise initia-tive, a series of subsidised consultancy packages promoted by the Department of Trade and Industry. These are considered to be for medium-sized or larger type of small business which can afford to pay more for the specialised advice

The DTI has set up a network of regional centres pro-viding information about the enterprise initiative. These can be approached directly, though enterprise agencies will refer clients if appropriate, as they would to regional economic development agencies such as Lancashire Enterprises, Greater Manchester Economic

Development, or the Northern evelopment Company (NDC). Bodies such as the NDC have formed federations for particular industrial sectors to bring small business together with big business and promote more local buying of goods, compo-nents and services within the

region. For example, there is a federation for computer software and another for the offshore industry. At the same time, the NDC has set up a procurement office to help small businesses bid for government contracts. Local authorities also remain

an important source of information for small businesses, especially as regards premises and also over special grants and incentives they may offer locally to people moving into their area and creating jobs. Town hall industrial development offices are therefore

aiways worth trying. So are chambers of com-merce, which apart from maintaining good information about their regions, are always on the lookout for members.

### ■ Useful telephone numbers

☐ The nearest enterprise agency can be found through Business in the Community, 01-253 3716. Any of the agencies should provide the eastest way in to the maze of information about available help.

☐ The Rural Development commission can offer advice about operating in the country-side. Its headquarters are in Salisbury, 0722-386255.

Salisbury, 0722-386255.

The Northern Development Company is based in Newcastle-upon-Tyme, 091-261 0026. So is Operation Livewire, the organisation which helps people under 25 into small business. It has a regional network based on counties Headmurters is an on counties. Headquarters is on 091-261 5584

☐ Greater Manchester Economic Development is on 061-236 4412. Lançashire Enter-prises: 0772-735821.

### Case study: Irene Davies



Irene Davies with her business partner, Albert Snoddy: winners

# A back yard success story

of the large food processing shops which make up this part tomers include Tate & Lyle, BOCM and Van den Berghs.

The company moved into a 1,000 sq ft factory and then on to larger premises until these were compulsorily purchased to make way for the roads that are being built to open up Docklands. It was at this point that Spencer Construction moved to its present site, one acre in Silvertown. The neat lawn in front of Mrs Davies's

From turnover of £33,000 in the first year ended June 1985. sales rose to £1m in 1987/88 producing pre-tax profits of more than £100,000. This year's order book is full and turnover is expected to exceed £1.5m. Spencer's expansion has been funded almost entirely

from its own retained profits, though Mrs Davies borrowed 660,000 to help finance the purchase of the present factory

ing - and we don't like having an overdraft," she says. The main problem facing Spencer is the difficulty it has in recruiting and keeping skilled labour. The company currently employs one apprentice (another recently left) but it has been looking for another three or four apprentices for

the past two years.
"We have them for two or three months and then they leave because they don't like the job or they can get more money somewhere else," says Mrs Davies.

An apprentice in his late teens will earn about £100 a week, though many of Spencer's older qualified workers earn £500 a week. Other smaller engineering firms in Silvertown are turning work away because they cannot find the labour, she says.

Mrs Davies says she has never had any management training, though her 11 years with the first engineering business gave her invaluable practical experience. She recently won the Docklands Enterprise Award, which carried the prize of a one-week management course at Ashridge Management College, a business school in Berkhamsted, Herthas been too busy to take a day off, let alone a week.

Now that Spencer is well established, Mrs Davies says she is looking round for something different to do. She has been considering expanding by buying an engineering design consultancy, or going into piant hire.

which is a bit of a challenge, she says.

Charles Batchelor

site. "We don't believe in borrowoffice is in stark contrast to the grubby factories and work-

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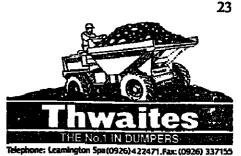
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### INSIDE

### Silence is golden in the Next shop



The board of Next, the UK retailing group, has stirred up controversy by refusing to reveal to shareholders details of the golden handshake payments made to Mr George Davies (left), the his wife Liz. The case highlights the legal grey area surrounding the obligations of companies to make such information available. Robert

Teamwork tensions over pay

GTE, the telecommunications company, has just introduced a new payments system at one of its US factories which attempts to overcome what could develop into a sharp dilemma for many employers: the tension between more collaborative team working and performance-related pay. Charles Leadbeater examines the issue in the Business Column. Page 49

### Trouble ahead

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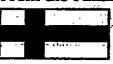
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Shareholder discontent seems set to surface at the extraordinary general meeting of Chloride, the batteries group, on Friday. The meeting has been called to approve the sale of Chloride's motive power business to Compagnie Generale d'Electricite, for £55m (\$87.5m). Nikki Talt reports. Page 28

### From the Finland station



Finland. That was the only borrower's name on people's lips in the Euromarkets last week, following an innovative deal for the country

launched by JP Morgan, which had rival syndi-cate managers reaching for their thinking caps. The novelty was that investors in previous Fin-land deals could choose to switch into the new issue. Andrew Freeman examines the market's reaction. Page 24

### Return to health

Until early last year, Wipac, the UK motor parts and accessories company, was slowly dying — unable to adapt to modern market conditions in the sector. But then a management buy-in was completed. John Griffiths reports on developments since the change of control. Page 27

### Market Statistics : . . . .

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The OECD faces a major The OECD faces a major uphill task spreading the industrialised world's green concerns to a developing world where economic growth has failed to keep pace with growing populations and rising indebtedness. There was agree-

improcedures of environmental proposals.

This is in response to growing pressure for action by governments on such phenomena as the greenhouse effect and global warming. Until now, there has been no repository of expertise to tell policy makers what environmental action will cost in terms of economic

The choice of the OECD to

source of problem.
But while the 24 OECD nations account for 75 per cent



BMW's new 5 series model: helped to boost sales performance

# **BMW Registrations**

# BMW goes into overdrive in race for market share

Haig Simonian examines the company's latest results

said Mr. von Kuenheim.

Even HMW's veteran smaller 8 series — now more than seven years old — is soldiering on. Boosted by faceliffs, clever mar-keting and the timely introduc-

keting and the timely introduction of variants every two to three years, demand for the range has always recovered from occasional dips.

Translating impressive sales into record profits is another matter, especially given the tricky economics of the car business. But BMW appears to be doing it better than most.

Net earnings at the parent

Net earnings at the parent company remained static at DM375m last year, leading to an unchanged DM12.50 a share dividend. But BMW's true performance requires some interpreta-

mance requires some interpreta-tion, because full consolidated figures are never published.

HAT CAN go wrong for BMW, the West German quality vehicle manufacturer, whose 1988 results last week spoke in almost the same superlatives as its advertis-

ing copy? Executives at the Munichbased high-performance cars and motorcycles group have good reason to look smug. In the past year, production, sales and profits have accelerated faster than one of its 12-cylinder saloons. If growth continues at this pace, BMW may soon face the same performance constraints it imposes on heavy-footed drivers of its top model to stop them

going too fast.

In Germany, HMW's sales rose
by 21 per cent to 181,000 units
last year, compared with a 4 per
cent fall in the market as a whole. That gives it a 7.1 per cent market share, closer than ever to its arch-rival Mercedes, which managed 10.2 per cent. The Bayarian group did as well

in key European countries. UK sales rose by 14 per cent to just under 43,000, while they jumped 20 per cent to about 24,000 in France and 31 and 25 per cent in haly and Spain respectively.

Even in Japan, where BMW's success has already turned into marketing legend, sales leapt by 28 per cent to almost 27,000 last year, continuing a BMW tradition
of consecutive increases of about
a third for the past four years.

Motorists have been even more
enthusiastic to get behind the
wheel of a BMW in the first four months of this year. Worldwide months of this year. Workware registrations jumped 21 per cent to 188,000, taking group turnover up to almost DM9bn (\$4.6bn). Sales rose by 24 per cent in Germany, 32 per cent in the UK and 15 per cent in France. As a result, BMW sales should exceed 500,000

extremely successful mixture of excellent cars, clever marketing and slick image advertising that appeals most strongly to the pro-fessional man.

Not only has volume increased.

ast week, the group gave an unexpected glimpse into its consolidated position. Net profits topped DM450m in 1988, while, pre-tax earnings were "somewhat over" DM12bn on sales of DM24.5bn.

Full comparative profits figures will stay under wraps until the company moves to full consolidated reporting with its 1989 results. But the signs are that BMW raced ahead in most markets last year, while having to in 1989 against 484,121 in 1988 and kets last year, while having to 51,340 the previous year. The boom rests on an Earnings at BMW's US holding company almost doubled to DM173m last year, but the rise was entirely attributable to booming sales in the UK and

the US operation.

BMW earned just DM7.1m in the US in 1988 – a sharp fall on 1987 – but the size is masked by the range or ordering more expensive extras.

According to Mr Eberhard von Knenheim, BMW's chief executive, 1988 was undoubtedly "the year of the 5 series". Plaudits for the mid-sized sports saloon from the motoring press have been followed by rocketing sales.

About 155,000 5 series cars were sold in 1988. That was "already considerably more than the old 5 series in its best year", said Mr von Kuenheim. the lack of comparative informa-

Falling volume was the main culprit. BMW's US sales declined by 16 per cent to 73,400 units in 1988 as a result of the second year of extremely difficult mar-ket conditions.

But at least one factor hand-icapping BMW — the switch to the new 5 series model, only launched in the US model, only launched in the US last October — has been removed. Thus sales have responded quickly, rising by 2 per cent in the first four months of this year and putting BMW alongside Volvo as the only European luxury car makers to have increased its US penetration this year. By contrast, sales at Jaguar fell by 5.7 per cent, Mercedes by 16.9 per cent and Porsche by 56.8 16.9 per cent and Porsche by 56.8

The effect of currency factors is harder to judge. Like other European exporters, BMW was hit by last year's fall in the dollar, which increased prices and reduced profits in D-Mark terms. Mr von Kuenheim stressed that the company was trading profit-ably in the US. But how well its US profits recover will depend as much on its foreign exchange

hedging skills as on demand.
Could anything force BMW off
the road? Production bottlenecks
may grow if demand continues tosurge. However, Mr von Knen-heim forecast that the present growth rates would not be main tained through the year, and BMW was planning for a period

of less frenetic growth.

And the Japanese? BMW is not ably be up to US motorists to prove whether they are right.

mderplaying the challenge from the new luxury models by Toyota, Nissan and Honda, especially in the US. But the atmosphere at its Munich bedware. ters seems curiously relaxed. The Bavarians clearly think they can withstand the challenge rather better than their counterparts at the smaller Porsche. It will prob-

# The real test of President Bush's ability to lead

By Anthony Harris in Washington

HE international bankers gathering in Madrid this week ought to feel some sympathy with US Congressmen. Join the Scapegoats' Club, either might say to either. While neither group is blameless, both have some right to feel aggrieved; yet both now have the chance to move on to better things. move on to better things.

It is probably hardest for the

bankers. They are currently blamed by everyone for the fact that the apparently generous and enlightened Brady initiative is so enlightened Brady initiative is so far producing no results at all. Mr Nicholas Brady has complained a number of times that they are dragging their feet on debt reduction, echoing the sentiments of his friend and colleague Mr James Baker, who is aggrieved that the bankers did not provide enough new money

aggrieved that the bankers mid not provide enough new money to make his own solvency-through-growth plan work. Last week Mr Michel Camdes-sus attacked them in Paris, warn-ing them that their delays might start "the cancer of arrears" in

start "the cancer of arrears" in international debt.

Mr Camdessus can in one sense afford to take a lofty tone: the IMF and the World Bank have exceeded all expectations in the speed with which they have planned their own policies under the Brady scheme — though it is only this week in Madrid that the bankers hope to learn what really matters to them, the numbers. However, his tone suggested that the Brady approach might prevent international arrears if only bankers would take their losses like men; and this is nonsense. What he failed to spell out forcefully enough is that under the test of "adequate domestic policies", only two or three of the Baker 15 would quality for debt reduction.

What is more important the

What is more important, the resources which the Fund and the Bank could make available to each borrower under the amounced rules are pathetically inadequate to support any really radical debt reduction. Bolivia did much better under its buy-back agreement in pre-Brady days than Mexico or Venesuela could hope to do with this kind of backing.

But it is Mr Brady himself who has no right to accuse anyone else. His so-called initiative was in fact a purely negative move: roadblock to any suggestion of debt reduction or forgiveness, whether it came from allies like France or Japan or from the banks themselves. The US Treabusiness, so governments encourant sury was determined to block aged the bank chairmen by any scheme which might result implying that the most expansive strated in Europe.

in a charge on the US Budget; and it evidently remains so. The truth is that if the banks are dragging their feet — rather than simply adopting an understandable cautious bargaining position — Mr Brady is quite largely responsible. Not enough fits has been made about an astonishing recent ruling from the US Internal Revenue Service: the US banks will not be allowed to offset any losses incurred in international debt reduction

against the profits of their domesagainst the profits of their domes-tic operations for tax purposes.

This greatly increases the cost of any debt reduction agreement; but when the banks sent a high-powered delegation to the Treasury to protest, they were told that the decision was irreversible. This ruling, together with the US refusal to provide any resources to help solve a problem which threatens its vital

problem which threatens its vital interests, reduces the Brady initiative to the Brady evasion: we won't grumble if you fellows will solve the problem for us.

It is true that any US government faces a big political problem if it tries to do anything effective about debt: Congress is ready to denounce any effective ready to denounce any effective assistance as a bail-out for the banks, and the voters regard it as

recent opinion poll showed that more than half the voters believe that foreign aid is the second biggest item in the US budget, where it is in fact one of the smallest; but politicians have little right to complain when legislators are parochial and voters are ignorant: that is what leaderahip is supposed to be about.

are ignorant: that is what leadership is supposed to be about.

The European position on the Brady proposal — that it must not result in any transfer of risk from the private to the public sector — is equal nonsense, and it is also hypocritical. The fact is that the public sector is bound to share the losses, as it has already done, through losses of tax revenue; and that it ought to share those losses.

No one who has taken any interest in international lending can forget the pumpous enthusiasm with which all the governments and central banks encouraged foolish lending by the banks

aged foolish lending by the banks in the 1970s. just as the banks encouraged folly by promoting landing officers who could write a more than usual amount of this high-risk



of them - the silliest, as it now turns out - could look forward to a seat in the Lords, an ambassadorship, or whatever honours other countries substitute for

he few bankers and jour-nalists who tried to give the warnings that bank supervisors should have given got a very different official reac-tion

So much for old scores: what chance does the Brady initiative now have — and what about the countries which will not in any

case qualify? Mr Brady's speech of March 10 has had most of the had consequences which his critics forecast at that meeting: it has aroused unrealistic expectations among both lenders and borrowers, and it has stalled any progress under

the old rules.

The Mexican negotiations started with a huge gulf between the relief demand and that offered, reflecting a lack of realism; and the countries whose problems are political as well as economic, notably Argentina and Brazil, seem no longer to be engaged in any meaningful dis-

cussions with their creditors.

It will be surprising, all the same, if the Mexican negotiations do not produce some at least marginally useful results, which will serve as a model for Venezuela and for some of the smaller debtors.

The question here is whether the relief which can be agreed will reduce the outward cashflow to the point where growth can be resumed; if not, debt reduction could still be followed by arrears, or default. The answer may well depend on whether the oil price remains high enough to restore the export earnings of the Latin-American producers, which may in turn depend on what now happens in Iran.

However, any off price which helps Mexico will make matters even worse for Argentina and some other problem debtors; and unless there is soon some plan for them, defaults on a large scale look inevitable.

The question now, therefore, is whether we will see some real ply wait for financial and politi-cal disasters to write the agenda for the Bank and Fund meetings

### **Economics Notebook**

# Green thoughts at the OECD

THANKS to last year's US ter of its land area and are home to only 16 per cent of the layer and Mrs Thatcher turning green, the world's industrial countries are now firmly on the way to reconciling world's eminder that the environment of exchange rate management and economic policy contains a policy of the contains and the contains are now firmly contained that the environment of exchange rate management and economic policy contains a policy of the contains and ries about the environment with the need for economic

Long gone are the days when the environment was a mar-ginal issue in international economic meetings, usually raised by West Germany to the mild hafflement of the other leading industrial nations. Last week's ministerial meeting of the 24-nation Organisation for Economic Co-operation and Development has brought green issues to the centre of economic decision-making.

The OECD has been asked to

provide firm analytical data to facilitate environmental decision making. It will, for exam ple, assess the economic costs and benefits and resource implications of environmental

cost in terms of economic

handle the environmental issue appears a good one. It has considerable in house expertise, having worked qui-etly on selected international environmental problems, such as the cross-frontier movement of hazardous waste, for the past 20 years. As an interna-tional forum, it is well placed to deal with issues like acid rain, where the costs of pollution often are borne by citizens of countries far from the

of the world's economic output, they cover only about a quar-

reminder that the environment is a global concern. ment and economic policy co-ordination is moribund. Seven-

ment last week that environ-mental considerations should be incorporated in development programmes. It remains to be seen whether the July economic summit meeting in Paris can come up with other imaginative and effective ways of spreading the green message to the Third World.

### Currency creaks

Those people hoping that last week's OECD ministerial gath-ering would shed light on the present state of policy co-ordination in the Group of Seven were expecting too much. The G7 central bankers were

as always - absent from the OECD jambores. The Japanese and West German finance ministers also stayed away from Paris, while Mr Hans Tietmeyer, the energetic state sec-retary in the Bonn finance ministry, was missing from the circle of G7 deputies.

Mr Nicholas Brady, the US Treasury Secretary, pleased all by expressing concern about the dollar's strength. He was less clear on other matters. At one point he told journalists that G7 co-ordination was "healthy, well and alive in every respect" and a few min-utes later said "there are always going to be moments in time when the G7 process looks a little creaky."

Creaky or not, Mr Nigel Law-son's first priority on his flying visit to Paris last Thursday

teen months ago, the group was looking just as groggy as it does now, only then it was

The G7 then got its act together through discussions over the telephone in December 1987 and delivered a financial blow to currency speculators that ensured many months of calm on the contents where weekers

struggling to cope with a slid-ing dollar rather than a strong

### **Crumbling fortress**

The United States seems to be overcoming its fears that the European Community's 1992 programme for a barrier-free internal market will create a "fortress Europe." The agreement between the

US and the EC to establish a dialogue on industrial standards appeared to convince Mr Robert Mosbacher, the US Commerce Secretary, that Europe post-1992 would be more open than closed.

A certain mystery has always surrounded the origins of the "fortress Europe" idea and the powerful hold that has had on the US imagination. It now appears that closer acquaintance with the EC among US officials is begin-

ning to dispel the fears.

There could also be sound commercial reasons for the US curbing its complaints about 1992. The rhetoric about fortress Europe" could have deterred hundreds of small and medium-sized companies in the US heartland from laying plans to grab a share of the EC market of 320m people.

### THIS WEEK

m, which are booked through

FRESH clues about trends in US inflation will be provided by producer prices figures for May, published on Friday, which could influence short-term movements in

The index of the prices of finished goods is regarded as an advance warning of movements in retail prices. Figures released last month were interpreted as pointing to a modera-tion in inflationary pressures, leading to strong rises in share and government bond prices. The consensus of analysts'

forecasts, compiled by MMS international, the financial research company, is for a month-on-month rise of 0.5 per cent, compared with a 0.4 per cent increase in April cent increase in April.
Other US figures include consumer credit statistics on

Wednesday. The consensus is for a rise of of \$50n, compared with \$5.4bn in March Interest in the UK is likely to concentrate on the strength of the consumer sector. Final fig-ures for retail sales in April are published today and analysts will be looking for revisions to provisional figures showing an unexpectedly large fall of 1.4

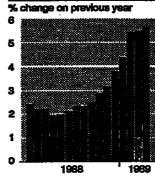
Also out today are figures for consumer credit in April which will show whether the recent alowdown in personal sector borrowing has contin-

A pointer to trends in retail sales during May will come in the Confederation of British Industry/Financial Times distributive trades survey on Thursday. It is likely to be watched closely for signs that sales volumes remain subdued. The survey covers sales volumes reported by retailers last month and expectations for June. This month it will also include questions on imports, prices and employment.

Mr Nigel Lawson, the Chan-

cellor, answers questions in the House of Commons on Thursday. Analysts will be looking for hints about interest rate and exchange rate policies Peter Norman | and for evidence of any rift

# **US Producer Prices**



hetween him and Mrs Margaret

In West Germany, trade fig-ures for April are expected tomorrow and are widely-expected to show large surpluses continuing. However, some moderation is expected after the DM12.8bn (\$6.54bn) surplus in March. Industrial produc-tion figures giving some guide to the strength of output are

expected today.
Other events and statistics this week include:
Today: Organisation of **Petroleum Exporting Countries** 

ministerial meeting in Vienna.
US auto sales in May.
Tomorrow: UK, Halifax
Building Society publishes its
monthly house price index.
Housing starts and completions in April. US initial unemployment claims and 10-day

auto sales. Wednesday: UK, advance energy statistics for April. Department of Employment publishes Employment Gazette. Mr Karl Otto Pöhl, President of Bundesbank, speaks in Cologne.

Thursday: Dr Theo Waigel

West German finance minister, speaks in Aachen on customs. Australian unemployment and employment figures for May. US House of Representatives
Ways and Means Trade Subcommittee hearing on "Super
301" list of unfair traders. Friday: UK, construction

Remember when big screens were only at the cinema?

Toshiba remembers. Back in 1939, we developed our first television. It had a 9-inch round screen.

A big screen TV was just part of the future. Now it's here. A 28-inch, high resolution flat and square screen Toshiba 285 TV. And now we work towards a new future. Not just for home entertainment, but for office equipment, medical equipment and a whole array of consumer and industrial products. Because at Toshiba, we continue to work towards the day when we say, "Remember when . . . ?"

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**EUROCREDITS** 

# Qatar makes a surprise debut

speculation about when the Guif state of Qatar would make its first borrowing in the international loans market. Now it has done so, springing some-thing of a surprise: the \$200m five-year credit being syndicated among international banks is being arranged not by an Arab bank but by a US bank, Chase Manhattan.

This seems unlikely to be a source of joy at Gulf Interna-tional Bank. GIB is owned by the seven Arab states of the Gulf - Saudi Arabia, Iraq. Kuwait, the United Arab Emirates, Oman, Bahrain and Qatar - and has come to be thought of almost as the house bank of the region's governments. The bank has not had an easy pas-sage in recent years because of weak oil prices and the eco-nomic contraction in the Gulf. This new development, although more significant psychologically than financially,

will not help.

The loan - which carries a 2½-year grace period and an interest margin of 22½ basis points – is the latest in a number of successes in the region for Chase, which is underwriting the whole \$200m. Early in the year the bank offered to underwrite the whole of a \$400m, three-year deal for Qatar General Petroleum Corporation, at an identical mar-gin, to finance the development of a large offshore gas project. In the end it was one of nine banks to underwrite

Oman has been a fairly regular borrower in the international markets, a fact reflected in the margins it pays, split

> EUROMARKET TURNOVER (\$m)

Euroclean 34,305 1 44,369.5 28,778.6 24,436 6 Week to June 1, 1989

Discount Bank and Trust Co.

has not, but this may mean banks do not have credit limits for the country. Given that Qatari nationals are counted in the tens of thousands (ignoring the larger expatriate population), the credit represents an extraordinary amount of gross external debt per capita. Qatar is still, however, considered to be a large net creditor, which

enjoys significant earnings from its oil exports. The biggest new credit of last week, and bankers say the fattest information memoran-dum and lengthiest presentation to bankers, was that of Harper & Collins. This is to be the name of the group of mainly financial investors buy-ing a group of publishing interests from the stable of Mr Rupert Murdoch

The new group - which incorporates William Collins of the UK, Harper & Row of the US, and some Australian and New Zealand magazine interests – is borrowing \$1bn. The financing, arranged by Manu-facturers Hanover, comprises a \$880m seven-year and a \$120m revolving credit for working

The credit is plain - no disposals are being built into the buy-out plans – and the inter-est margin starts at 1½ points, declining along with the com-pany's gearing. When that falls to 41/2 times, the margin falls to one point. It is underwritten by seven banks.

In the UK, Morgan Grenfell has put together what it says is the first acceptance agency facility, a £50m facility for Coloroll. The facility is meant to complement the group's other short-term borrowings. including a sterling commercial paper programme on which Morgan is a dealer. Acting through Morgan, Coloroll will use the cheapest market. Banks tendering for acceptances will know whether their bids have been accepted on the day they make them. Most wait 48 hours.

In the Eurocommercial paper market, South Australia Brewing has a \$200m programme, arranged by Swiss Bank Corporation International, with Citi-bank and J.P. Morgan also act-

Stephen Fidler | Magara Construction # 490

INTERNATIONAL BONDS

# Finland's innovative \$250m deal arouses controversy

THERE WAS only one borrower's name on people's lips in the Euromarkets last week - Finland. If that was unusual, then it followed Tuesday's innovative \$250m deal launched for Finland by J.P. Morgan, a deal which had rival syndicate managers reaching for their thinking

The seven-year issue, carrying a 9 per cent coupon and a spread against Treasuries of 48 basis points, came with a novel exchange offer. Investors in previous Finland deals could choose to switch into the new issue, which would be increased accordingly to a maximum of \$1.058bn.

Three days later, some \$155m had been registered for exchange, meaning that the issue size will rise to at least \$400m. There are still two weeks during which investors

can decide to switch.
Initial reactions to the deal were encouraging, although there were murmurs of disent which grew louder. While the new issue was judged as fairly priced, syndicate officials expressed concern not only that some investors were being offered a raw deal, but also that it was far from clear that the borrower would really benefit.

diverged from general agree-ment that the idea behind it was brilliant, depending on whether the borrower's or investor's perspective was adopted. For the borrower, the deal

Argument about the deal

seemed to offer an opportunity to concentrate its borrowings in a single, liquid benchmark which should trade on a tight spread against the US govern-ment bond market. Previous

April, 1989

Finland issues have been small and have tended towards illiquidity, so that the borrower complained that its deals underperformed those of comparable sovereign issuers.

By creating a benchmark deal, Finland hopes to com-mand a tighter spread when it borrows in the future. The money spent to create the benchmark, both during the actual deal and in the buy-back programme which preceded it, will in theory be recovered by more competitive funds.

Syndicate managers outside the deal question this line of argument, accusing it of being illogical. They point out that Finland is not a borrower with regular funding requirements, that new issues are also priced against the market rather than merely against a liquid second-ary issue by the same borrower, and that any benefits in

terms of costs are highly spec-ulative and hard to quantify. Mr Peter Bernard, syndicate manager at J.P. Morgan, did not rule out these arguments, but maintained that the evi-dence was already there in spread terms that Finland deals would trade more com-

petitively in future. He pointed out that in an increasingly institutional market, liquidity was of growing importance to investors and that Finland was giving the market what it wanted. From investors' points of view, the arguments were quite different. For tax and

reporting reasons, there are many investors who will go to great lengths to avoid a capital loss on their transactions.

They are put in a difficult position where they hold old Finland bonds, many of which can only be exchanged by taking a capital loss. One alternative is to hold their bonds, but the investors know that these will be even more illiquid than they were before the exchange offer was made.

A third possibility, switching into a completely different issue, was dismissed by most traders as too expensive on the sell side, although J.P. Morgan said it was making the same bid price whether investors were exchanging or simply selling their Finland bonds. In reality, then, the new structure should appeal mainly to those investors who can tol-

erate a capital loss. They can switch into last week's deal for a yield and liquidity pick-up, confident that they will be able to trade in size. There were more controver-

sial undertones to the discussions of the deal, however. J.P. Morgan made no secret of the fact that some weeks before the exchange offer, it had oper-ated a buy-back programme for Finland, acting as agent for the

republic. Such programmes are common enough, but they have never before been followed by a deal which finds part of its justification in the illiquidity of the secondary market in the same borrower's issues. Arguably, the buy-in itself made illiquid deals even more illiq-uid, so that investors faced an

even starker choice when the exchange deal was announced. While there was no suggestion that there was anything untoward, one syndicate official commented that it had played into a growing aware-ness that the bond market was not exempt from potential con-flicts of interest.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES															
Borrowers	Amount m.	Maturity	Av. life years	Coupon	Price	Book runner	Offer yield %	Borrowers	Amount m.	Maturity	Av. life years	Coupon	Price	Book runner	Offer yiek
US DOLLARS								Tobishima Corp.(n)★★§◆	500	1993	-	( <sup>1</sup> 2)	100	Citicorp Inv. Bank	0.500
Press Kogyo Co.♦◆	100	1993	4	44	100	Nomura Int.	4.250	Dai-Ichi Kangyo Bk(b)§	300	1993	•	<u>(</u> ½)	100	Credit Suisse	*
Seika Corp.♥◆	80	1993	ă	45	100	Daiwa Europe	4.625	Dai-Ichi K.Bank(c)★★§	600	1993	-	(Zero)	100	Credit Suisse	. 🔻
Sapporo Breweries∳◆	200	1983	à	44	100	Yamaichi Int. (Eur)	4,125	Dai-Ichi K.Bank(d) ***	100	1993	-	(38)	100	Dal-Ichi Kangyo Bank	*
Mitsubishi Heavy Ind.♦◆	1.5bn	1993	á	7.	100	Nildro Secs. (Europe)	4,000	Nitto Chem. Ind.(e)★★§	106	1994	•	(12) 618	100	UBS	*
Mitsukoshi Ltd.♥◆	400	1993	à	À	100	Nomura Int.	4.000	General Motors Corp.	120	1999	-	618	1001/2	J.P. Morgan Secs.	6.057
Alps Electric♥◆	200	1993	ă	4 <sup>1</sup> e	100	Daiwa Europe	4,125	Korakuen Co.(q)★★§	150	1993	-	(Zero)	100	Credit Suisse	*
Otympus Optical Co.+	150	1993	à	ī,a°	100	Yamaichi int. (Eur)	4.000	Yuraku Real Est.(r)★★\$	100	1994	-	( <sup>1</sup> 2) ( <sup>5</sup> 8)	100	SBC	
Olympus Optical Co.	150	1993	ă	Ă	100	Nomura (Singapore)	4.000	Chisan-Tokan Co.(s) ***	79	1993	-	(5 <sub>6</sub> )	100	Credit Sulsse	*
Suzuki Motor Co. 00	300	1993	ě	Ž.	100	Nikko Secs. (Europe)	4.000	Weston Corp.(t) ★★§	40	1994	-	(Zero)	100	UBS	*
Daiwa House Ind.	800	1993	á	À	100	Nomura Int.	4,000	Yuasa Shoji Co.(w)★★§	100	1994	-	{z}}	100	Nomura Bank (Switz)	*
Ferrovie dello Stato	500	2009	ŽÕ.	91 <sub>8</sub>	101 Sa	Morgan Stanley Int.	8.948	error nie							
Finland, Republic of(a)	250	1996	7	g	100%	J.P. Morgan Secs.	8.975	STERLING							
Xerox Credit Corp. ◆	500 250 125	1993	4	10	101.725	Goldman Sachs Int.	9.462	Gracechurch Mort.Fin.‡	175	2019	6.2	(h)	100	BZW	
Dai-Ichi Kangyo Bank§	300	2004	15	(3%)	100	DKB Int.	*	ECUs .							
C. Itoh & Co. 4	600	1994	5	(5) (5) (4 <sup>3</sup> 8) (4 <sup>3</sup> 8)	100	Nikko Secs. (Europe)	*								
C. Itoh & Co.P	400	1994	5	(5)	100	Yamalchi (Asia)	*	Japan Highway∳	150	1996	7	918	101.65	LTCB (Europe)	8.799
Kobe Steel	300	1993	4	(4%)	100	Yamaichi Int. (Eur)	*	GUILDERS							
Kobe Sleei¢	300	1993	4	(43g)	100	Nomura (Singapore)	*						<del></del>	<del></del>	
Ube industries#	400	1993	4	(4%)	100	Yamalchi Int. (Eur)	*	Heineken NV★★◆	150	1994	5	75 75 75	2ر 101	ABN	7.257
Nichiral Corp.	150	1993	4	(412)	100	Nomura Int.	*	Vereniging Asgon★★◆	100	1992	3	74	1004	ABN	7.462
Amada Sonolke	100	1993	4	(4½) 9¼	100	Nomura Int.	*	Waterschapsbank NV◆	150	1999	10	75	102	Amro Bank	7.335
Metropolis of Tokyo◆	200	1994	5	`9 <del>1</del> 4	1015 <sub>8</sub>	18J (mt.	8.834	PESETAS							
Oest. Kontrolibank	175	1994	5	914	1013	J.P. Morgan Secs.	8.897								
Tokyu Construction	150	1993	4	(4 <sup>1</sup> 2) 15bp	100	Yamaichi Int. (Eur)	*	Int. Finance Corp.	10bn	1994	5	12½	1015	Citibank Espana	12.049
Flash Series G(j)‡♦	30 125	1993	314	15bp	100_10	Sanwa Int.	-	LUXEMBOURG FRANCS							
State Bank Victoria(o)†	125	1994/99	5/10	5bp	100	Merrili Lynch Europe	•								
Nikon Corp. •	300	1993	4	(4 <sup>3</sup> 8)	100	Nikko Secs (Europe)	*	EIB★★◆	300	1994	5	8	100%	Sogenal	7.782
Yokohama Rubber Co.	120	1993	4	(4 <sup>1</sup> 2)	100	Yamaichi Int. (Eur)	*	KB Int. Fin.NV★★◆	300	1995	6	8	10012	Kredietbank Int.	7.992
Taya Construction Ca.P	100	1993	4	$(4^{1}2)$	100	Nomura Int.	*	ECSC♦	1bn	1994	5	73,	100½	BGL	7.526
Credit National(p) ★★◆	60	1992	3	11,925	100	Daiwa Europe	11.925	YEN							
Silicon Graphics Inc.§	50	2004	15	(7 12-8)	100	Morgan Stanley Int.	*								
AUSTRALIAN DOLLARS								Marubeni UK(I)◆	17 <sup>1</sup> 2bn	1994	5	ற	112.603	Daiwa Europe	-
								GTE Finance Corp. ◆	13bn	1994	5	515 5.1	10112	Yamaichi Int. (Eur)	5.152
N.Sth Wales Treasury(k)◆	85	1993	4	12 <sup>1</sup> 2	93,431	Bain & Co.		S'te Elec.Comm.Victoria	15bn	1994	5		101	Yamaichi Secs.	4.932
D-MARKS								Queensland Treas.Corp.	10bn	1994	5	5.2	101	Nikko Secs.	5.033
								S'te 8k South Ausralia	35bn	1996	7	(u) 73		Nomura Int.	-
Dai-Ichi Kangyo Bank§	200	1996	7	[2%)	100	Dresdner Bank	*	ASLK-CGER IFICO(v)◆	13bn	1993	4			Dalwa Europe	7.267
Z-Bank, Vienna(f)★★◆	100	1999	10	712	1024	Morgan Stanley	7.177	Banco di Napoli(v)	3be	1994	5	7.76		IBJ Int.	7.299
Flat Fin.and Trade(g)**	100	1992	3	[2%) 7½ 8%	100 <sup>1</sup> 8	WestLB	8.701	Banca Comm.italiana	17.39bn	1994	5	(x)	113.40	Daiwa Europe	-
Inter-American Dev Bank	300	1999	10	74	10012	Deutsche Bank	7.178	#Not yet priced. ##Private place	roeat. Wilds ex	مسعيهم فررما	. #Floating r	zie notes. 🛊	Final lenn	a. 4) Tep up to \$1.056bm. Ex	change offer for
SWISS FRANCS								whot yet priced, which yet place holders of any old lized rate Fink 2870%. It will not be the control of the co	2,384%. 1) Add	ts. b) Indicate litional DM/100	nd put to year Jan on beap. g	0 2.785% c) ) Borrower o	Indicated ption to re	put to yield 3.022%, d) Indica ideam in DM or CS at DM1.5	ited put to yield 2. ht 20bp over
Hokuriku El.Ind.(i)★★§◆	150	1994	-	12	100	Nomura Bank (Switz)	0.500	Funcible with A\$160m band bound	ched in March	including es	chance offer	And the second	a. y rukt k. bond. 19	v yeng 2.11976. ji 1303) 6466 3 1 Step-down coupon: 11.13%	wat 1. 7772%
Showa Highpolymer≠★♦◆	90	1994	_	14	100	Citicorp Inv. Bank	1,250	thereafter. m) Put yields 2.124%. n	) Put yiekta 20	8%. of Shp of	ver 6-month l	Libor. Call at	100 after 5	years or borrower may give	investors option
Magara Construction 4 4 4	30	1994	•	114	100	Handelsbank NatWest	1.250	to extend issue for further 5 years	s. p) Redempti	on currency ti	inked Yen/S	Put to yield:	g) 3,17%.	r) 2392%. s) 2431%. l) 3.47	7%. u) Coupon
Magara C'tion(m)★★5◆	30	1994		12	100	Handelsbank NatWest	0.500	Acres 1-2 5-5 to talena more water	~ poimening. Y	1) Lighten dy Marie				n => y==== 2-3017a- xj 3590-004	an coupon: Mst

WITERWATIONAL BOND ICCIDES

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### TÜRKİYE GARANTİ BANKASI A.Ş. **U.S.** \$70,000,000 **Tobacco Pre-Export Facility**

Bankers Trust International Limited

Lead Managers

Banco Español de Credito, S.A. BANESTO Allied Irish Banks plc ASLK-CGER Bank Bankers Trust Company Bank of America International Limited The Bank of Tokyo, Ltd. Banque Française du Commerce Extérieur Barclays Bank PLC Banque Worms The Fuji Bank, Limited First City, Texas - Houston, N.A. Crédit Lyonnais Gulf International Bank B.S.C. Hessische Landesbank - Girozentrale-The Gulf Bank K.S.C. The Long-Term Credit Bank of Japan (Europe) S.A. The Kyowa Bank, Ltd. Österreichische Volksbanken-Aktiengesellschaft Österreichische Länderbank AG The Taiyo Kobe Bank, Limited

The Sanwa Bank, Limited Société Européenne de Banque The Tokai Bank, Limited

The United Bank of Kuwait PLC Managers

Banque Internationale à Luxembourg S.A. Bank in Liechtenstein Aktiengesellschaft BANCA CRT – Cassa Risparmio di Torino Commonwealth Bank of Australia Creditanstalt-Bankverein Crédit Industriel et Commercial de Paris Crédit du Nord S.A.

NORDBANKEN Providers of Funds ASLK-CGER Bank Bankers Trust Company Allied Irish Banks plc The Bank of Tokyo, Ltd. Banco Español de Credito S.A. BANESTO Bank of America NT&SA Banque Française du Commerce Extérieur Banque Worms Crédit Lyonnais First City, Texas - Houston, N.A. Hessische Landesbank -Girozentrale-The Gulf Bank K.S.C. Gulf International Bank B.S.C. Österreichische Länderbank AG The Long-Term Credit Bank of Japan (Europe) S.A. Österreichische Volksbanken-Aktiengesellschaft The Taiyo Kobe Bank, Limited Société Européenne de Banque Barclays Bank PLC The Fuji Bank, Limited The Tokai Bank, Limited The United Bank of Kuwait PLC NMB Bank Bank in Liechtenstein Aktiengesellschaft The Kyowa Bank, Ltd. The Sanwa Bank, Limited Banque Internationale à Luxembourg S.A. BANCA CRT - Cassa Risparmio di Torino Commonwealth Bank of Australia Crédit Industriel et Commercial de Paris Creditanstalt-Bankverein Crédit du Nord S.A. NORDBANKEN Banco di Sicilia International S.A. BACOB Savings Bank s.c. The Bank of Kuwait and the Middle East, K.S.C. (B.K.M.E.) Banque Louis-Dreyfus Baverische Vereinsbank Aktiengesellschaft Credito Italiano International Ltd. Melita Bank International Ltd. (San Paolo Group) DG BANK Luxembourg S.A. The Rural & Industries Bank of Western Australia Berliner Bank Aktiengesellschaft



Kredietbank NV

Bank fuer Oberoesterreich und Salzburg (OBERBANK)

**NEW ISSUE** 

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April, 1989



### ZENCHIKU COMPANY LIMITED

U.S. \$100,000,000

5 per cent. Guaranteed Bonds 1994

Warrants

to subscribe for shares of common stock of Zenchiku Company Limited

The Bonds will be unconditionally and irrevocably guaranteed by

The Mitsui Bank, Limited

ISSUE PRICE 100 PER CENT.

Daiwa Europe Limited

Bayerische Vereinsbank Aktiengesellschaft Mitsui Finance International Limited

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Robert Fleming & Co. Limited

J.P. Morgan Securities Asia Ltd.

Norinchukin International Limited

Salomon Brothers International Limited

Société Générale

Swiss Volksbank

**Bankers Trust International Limited** 

Baring Brothers & Co., Limited Dresdner Bank Aktiengesellschaft

Merrill Lynch International Limited

Morgan Stanley International

N.M. Rothschild & Sons Limited

Shearson Lehman Hutton International

Swiss Bank Corporation

Universal (U.K.) Limited

### INTERNATIONAL CAPITAL MARKETS

UK GILTS

# Sought-after rates achieved at last

THE GILT-EDGED securities market last week witnessed its biggest shake out since the aftermath of the 1987 October stock market crash.

It has wanted to sell the long 12 end of the market for some time, and reports that the Treasury was reassessing the funding rule was enough to tip

The market was looking for a reason to break out of its trading range after a week of rumours about changes to polcy, damaging speculation 9 about differences between No 10 and No 11 Downing Street and worries about ster-

ling.
With the peak in inflation some time off — in the near but indeterminate future and with all the political and currency worries, the "cost of carry" sums just did not make sense. To buy long gilts below 10 per cent at current money market interest rates would have required a rise in prices at the long end of a point over the next three months for the investor simply to make sure

of breaking even. in a sense the market's key move was last Wednesday when long yields rose decisively through the 10 per cent barrier. Friday's news, which put funding policy back on the agenda, consolidated the move

above 10 per cent. In any event, the market wanted a somewhat flatter rield curve and it has got

From the official perspective, funding policy is not about to

÷.

-2

UK gilts yields Restated at par (%) June 2,1989

change. The line from both the Treasury and the Bank of England is, however, that pol-icy is not fixed in concrete; it is assessed continually. Officials say they cannot rule out changes to funding policy but that this is not a runner at

May 26,1989

10 years 20

roe: Warburg Securities

It could, therefore, be an ting summer. What seems certain is that pressure is building for an end to the situation in which the public authorities borrow at relatively cheap long-term interest rates and put them on deposit with banks at much

This "round tripping" has been a large cause of the cash surpluses in the money mar-ket. Possibly as much as £6bn of liquidity was added to the market through this device in

1988-89 and the indications are

that the Government may move to curtail it.

The talk about over-funding has been largely confused. This is especially so in the case of Professor Alan Walters, the Prime Minister's economics adviser, who wanted monetary base control in the early 1980s, but was ultimately defeated by the Treasury and the Bank and settled for M0 as a consolation

It is difficult to associate over-funding with him as he is not a broad-money man and over-funding is all about reducing the rate of growth of broad-money aggregates.

What is possible, however, is what is possible, however, is that a case could be made for saying that the operation of an MO and exchange rate policy has not been unambignously successful over the past two

In this the Treasury and the Bank are vulnerable to attack if anyone with the ear of the Prime Minister choses to do so. And the Prime Minister's recent comments on shadowing the D-Mark had the unmistakable ring of Prof Walters a man known for his aversion to playing around with exchange rates.

In the absence of broadmoney targeting it is difficult to see what over-funding would achieve. If it came about simply to deal with the monetary sector's disinvestment of gilts, specifically the banks, then a change would seem not much more than a short-term expedient which may do more dam age to the credibility of policy than good.

The problems created by the banks' sales of gilts - they accounted for a 54bn injection into the money market in 1988-89 - may well have

At the end of April, the banks' holdings of gilts amounted to just \$4.9bn (building societies held £7.5bn of gilts) and there is a limit to the extent to which their holdings can be run down. Also a move to over-funding

on account of the banks' past behaviour assumes they will always be sellers; if they turn and buy glits the authorities could find themselves in the embarrassing position of under-funding, with expansionary monetary consequences. More importantly, if the con-cern is that current funding

policy is leading to too much cash sloshing around in the money market, which depresses short yields, then that is what is likely to happen if a move to over funding-takes

The Bank will be required to assist the market, by buying commercial bills.

As in the past the only way to do this is to force prices higher and short-term yields lower. In sum, a repetition of the current "problem" by different means.

A better response would be to stop local authorities round tripping.

Simon Holberton

# Stampeding bulls ignore obstacles

WITH long-term US interest rates falling below 8½ per cent for the first time since March 1988, the case for buying bonds has rarely seemed more per-

The US economy is slowing. The Federal Reserve Board is flooding the market with leaks about easing monetary policy, if not yet with money itself. The dollar is still riding high, yet the US trade position is holding up better than most economists had predicted a few

months back.
Against a background like this, it is hard to begrudge last Friday's 1% point rally and tempting to share the increas-ingly widespread belief that a full-scale bull market in US bonds is finally under way. bonds is finally under way. This morning, as investors respond to the exceptionally favourable report for May from the National Association of Purchasing Managers, it may seem hard to imagine what obstacles could possibly stand in this raily's way.

The NAPM report provides the fullest reassurance imaginable for those fainthearts who

able for those fainthearts who continued to doubt the economic slowdown even after Friday's weak employment statistics. The NAPM's composite

index, which is probably the

Contractent 10-result

t Estimated nor vield

best and certainly the most immediate indicator of cyclical movements in the economy as they take place, fell to 49.7 per cent in May from 53 per cent in April This was the first reading below 50 per cent since July 1986 - a crucial development since, according to the statistical analyses conducted by the NAPM and the Comrce Department, a number

below 50 suggests "the econ-omy is generally declining." Better still, the details of the NAPM figures revealed that the character of the slowdown was almost perfect from the bond market's and Fed's point of view. Export orders continued to increase in May, even if the rate of growth decelerated slightly. Capital spending remained fairly strong, while inventories continued to decline. The purchasers noted fewer delivery bottlenecks and the index of planned price increase fell dramatically to its lowest level since December

What more could bond investors hope for? Presumably only a confirmation of the lower inflation trend in Friday's pro-ducer price index, followed (or possibly even preceded) by an explicit Fed easing and cut in prime rates. Unless the PPI

PERFORMANCE INDÉX

148.24 149.80 150.85 141.63 150.25 154.94

147.99 147.53 148.15

US MONEY MARKET RATES (%)

US BOND PRICES AND YIELDS (%)

Money supply: In the week ended May 22 M1 fell by \$0.5bn to \$772.5bn

NRI TOKYO BOND INDEX

147 R2

147.83 149.77 150.85 141.71 150.38 155.10

5 18

contains some unexpected horrors - which in the present is quite simply that so much circumstances might mean an overall PPI of more than 0.7 per cent and a rise in the core rate, excluding food and energy, of more than 0.5 per cent - the market could easily extend last week's rally.

to a decent PPI figure. Before committing themselves fully to another step reduction in interest rates, investors, as well as the increasingly impatient policy-makers in Washington, could well decide to wait for the batch of trade, industrial production and consumer price statistics due out next week. The fact remains, however, that even Wall Street's more sceptical bond analysts, such as Mr Bob Giordano of Goldman Sachs and Mr Bob Brusca of Nikko Securities, have to admit that, unlike the surge in hand prices which began last autumn and ultimately degenerated into the rout of early spring, the present rally seems

to make economic sense. It is precisely at times like these, when all the evidence seems weighted overwhelmingly in one direction, that it is worth focusing on the factors which could pull the market unexpectedly against the uni-versally recognised bullish

Despite all the present excitement, there seem to be at least three reasons why this may not be such a brilliant

time to buy US bonds.
Firstly, there is the level of the dollar. Although the dollar's recent surge has been seen almost universally as the catalyst which set off the rally in US bond and stock prices, its true effect is far more ambiguous. As the dollar has risen, so has the risk of holding US securities for overseas investors. Given the expected fall in short-term interest rates in the next few weeks, it may well turn out that last month's sudden climb by the dollar will prove to be a mere aberration or, even worse, the climatic spike which brings the 18-month mini-bull market in the

If the dollar starts to retreat in response to a monetary easing in the US, then the best investments to take advantage of this easing might be Euro-pean and Japanese honds, not American ones.

good news has already been built into market prices. The long bond is yielding 8.5 per cent at a time when "good" PPI and CPI statistics are viewed as those which indicate an underlying inflation rate of of course, the market may only 5 per cent or so. For many tax-paying investors, this means the real long-term interest rate is now less than zero, and even for tax-free funds the real rate of 3.5 per cent is hardly a once in a lifetime bargain.

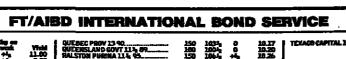
The bulls argue, of course, that the present underlying inflation rate of 5 to 5½ per cent is only a temporary peak. Inflation is known to be a lag-ging indicator and, given imminent slowdown in the US economy, inflation can be expected months to a year from now. In that case, it might be more reasonable to gauge long-term bond yields against a long-term inflation rate well below the present level. There is no shortage of bullish analysts on Wall Street willing to predict that inflation will fall virtually to zero and long-term bond yields will decline to 5 per cent or so in the next few years.

Unfortunately, such predictions fly in the face of political reality. As is all too evident already, there is no powerful constituency in the American public, in the Federal Reserve Board, or even on Wall Street, which favours a drastic reduc-tion in inflation.

The clearest evidence for this is provided by the speed with which both the Fed and Wall Street have concluded that "a soft landing" is now assured and that interest rates must be cut immediately to avoid an outright recession.

This points to the third and most important reason why US bonds at present levels may prove a dubious investment in the long term. It is now likelier than ever that the Fed will ease back from prematurely reviving the economic expansion well before inflation has been cooled down. To put it another way, the "soft" part of Mr Greenspan's soft landing seems to have been achieved. But is the US economy actually landing, or simply gliding downwards until it catches another inflationary updraft later on in the year?

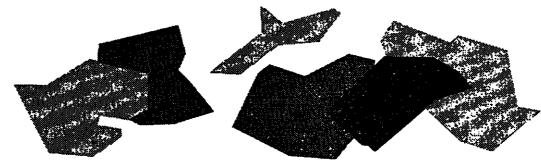
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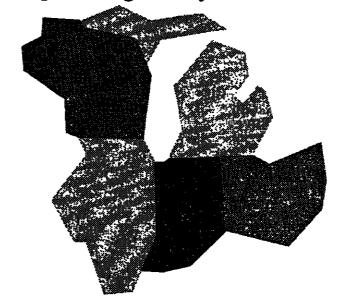
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### AMERITECH

Varity considers

# Arnault confident of winning LVMH vote

By Paul Betts and George Graham in Paris

MR BERNARD ARNAULT, the chairman of Moet Hennessy-Louis Vuitton (LVMH), the French champagne, cognac and luxury goods group, appears confident of securing a comfortable majority at Fri-day's long-awaited sharehold-

Despite the freezing of a portion of his stake by the Paris commercial court last week. the Arnault camp believes it can rely on at least 60 per cent of the votes at the meeting, enough to block any attempt by Mr Henry Racamier, head of the dissident Louis Vuitton clan, to change the group's existing management board, which is chaired by Mr

Unless Mr Racamier succeeds in changing the balance of power at LVMH, the way will be clear for Mr Arnault to prevail over his rival at the ing of the Louis Vuitton subsidiary, where LVMH owns 98

Perstorp shows

15% rise after

PERSTORP, the Swedish specialty chemicals and plastics group, reports a 15 per

cent rise to SKr464m (\$70m) in

profits after financial items for

the first eight months of the

year ending August 1989, com-pared with the same period

last year.
Operating profits rose by 32
per cent to SKr679m, while
sales increased by 27 per cent
to SKr4.29bn, helped mostly by

acquisitions.
Mr Karl-Erik Sahlberg, chief

executive, estimated profits after financial items for the

whole year at about SKr650m. He said he believed the return on total capital and sharehold-

ers' equity would decline,

although remaining well above

sales has come in the compo-

nents area with a 73 per cent

increase to SKr586m. But there were also impressive sales in

the biotec sector, with a 36 per

cent jump, and surface materi-

The best performance in

group targets.

acquisitions

By Robert Taylor

in Stockholm

At that meeting, Mr Arnault will call for a change in Vuitton's corporate structure, at the same time lowering the retirement age to force the 77-year-old Mr Racamier out of the Vuitton chairmanship. Mr Racamier would, however, remain vice chairman of

Vuitton meeting is scheduled for June 13, and must take place by June 30, although the Racamier camp is seeking ways of delaying it further. The change in statutes would require a second meeting at least a month later. Mr Arnault, 40, controls a

total of 44 per cent of LVMH's capital and 35 per cent of its voting rights in partnership with Guinness, the UK drinks group. The recent court decision freezes about 5 per cent of Mr Arnault's votes, although the sequestrator has been ordered to vote against any challenge to the existing mangement. while, have around 27 per cent However, Mr Arnault ex- of LVMH's voting rights.

By Richard Johns in Mexico City

A NUMBER of US and West

European airlines have expressed an interest in buying

into Compania Mexican de

Aviacion (Mexicana) in associ-ation with the Government's plans to privatise the airline.

according to a senior official of the Ministry of Finance.
The official said bids would

He declined to say which air-

lines were interested and, in particular, to confirm appar-

ently well-informed specula-tion that British Airways is

He said, however, that the Government would not sell its

stake - currently 51 per cent - in the debt-burdened com-

pany for a period of three years

but would keep it in a

The official said: "The Gov-

ernment is not going to receive any money in the short-term

because it wants to strengthen

the business so that it can

compete with the American

The privatisation move was

carriers.'

be reviewed on Friday.



pects to count on most of the 20 per cent voting rights held by the Moët and Rennessy fam-ilies, and is confident of the support of a further 10 per cent from institutional investors.
The Vuitton families, mean-

Western airlines eye Mexicana

He added that "in many

areas Mexicana has lagged

behind," and that the aim was

to dilute the Government's share of an increased capital

base to 28 per cent.

After three years, the Government would dispose of its

stake either to existing shareholders at a pre-determined price or via the Mexican stock

market. Foreign majority control

would not be permitted but (in line with Mexico's foreign

investment law, which reserves majority ownership of

airlines to national companies) with a diluted shareholding any group with 33 per cent would have effective control, the official said.

The interest of foreign carri-

ers in Mexicana was not to control it but to use it as a

means to expand flight routes,

he added. Debt swaps as a means of purchase have been ruled out by the Govern-

Last year Mexicana earned a

good start."

In two years Mr Arnault's shares, too, will qualify for double voting rights like those of the Vuitton and Moet families, giving him and Guinness outright control of the group. Guinness's total interest in LVMH now amounts to 24 per cent, held indirectly through acrimonious confrontations.

Mr Racamier has been tak-

the holding company Jacques Rober, and through Christian Dior, the vehicle through which Mr Arnault controls 55 per cent of Rober. LVMH, for its part, owns 12 per cent of Guinness, making it by far the British company's largest shareholder. An agree-ment between the two groups permits LVMH to raise its stake to the same level as the Guinness holding in LVMH. Although no decision has yet been taken by LVMH, the French group is widely expec-ted to increase its holding

Before last week's court deci-sion, Mr Racamier had been

end of 1988 the airline still had an external debt of \$235.4m. Moves towards the "disincor-

poration" of Mexicana is the

first major privatisation mea-sure so far announced by the

administration of President Carlos Salinas de Gortari. Its predecessor first tried to

sell its share in Mexicana just over two years ago and failed

in two attempts, although it

succeeded in disposing of Aero-mexico, the other big national

carrier, last November.
So far 572 parastatal enterprises have been disposed of out of 1,555 earmarked in 1982

for privatisation and 756 for which sale has actually been authorised.

Of the latter, the two out-

standing failures to date, apart

from Mexicana, have been Compania Minera de Cananea and the Dina motor

Of the Dina group, for which a sale deadline of end-Novem-ber 1988 was originally set, the official said that the Govern-

dilute Mr Arnault's current control. Even if he now decides not to do so, some minority shareholders are expected to challenge Mr Arnault at Fri-day's meeting, which is likely to be marked by noisy and

ing out full-page advertisements in the French press to put his case, to the profound irritation of Mr Arabit, who has taken legal action. Mr Arnault is now expected to launch his own advertising campaign before the meeting. Although time appears to be running out for Mr Racamier

### **Deutsche Bank** and Fiat in credit card plan

FIAT and Deutsche Bank have announced their first common initiative since the latter became a long-term share-

group.

They will launch a credit card, to be known as Fidis-Card, through a company to be set up by Fidis, Flat's main financial services company, and Banca d'America e d'Italia

and Banca d'America e d'Italia (BAI), Deutsche Bank's Italian banking subsidiary.

According to Fiat, the new card will gain from "BAI's specific experience of international credit card operations through the BankAmerica Card, and from the commercial presence of the Fiat group."

following the partial failure two years ago of an attempt to market the 15 per cent stake in the Italian group formerly held by the Libyan Government. The bank announced some months ago that it intended to

# in his nine-month struggle with Mr Arnault, he will remain a potential thorn in the younger man's side as leader of a large minority share block. It was Mr Racamier himself who first invited Mr Arnault into LVMH, but the relation-ship between the two men has now deteriorated to a point where it is difficult to see any

# By John Wyles

holder in the Italian motor

presence of the Fiat group."

Deutsche Bank holds about 3 per cent of Fiat's share capital

become a long-term share-holder in Flat.

### **Earnings** upsurge at Bank of Montreal

By Robert Gibbens

BANK OF MONTREAL, in line with the other five big Cana-dian chartered banks, reports an upsurge in earnings for the first half of fiscal 1989. Earnings rose 50 per cent due to higher net interest

income, lower loan loss provision and better control of expenses. They were \$C262.9m (US\$219.4m) or \$2.24 a share, up from C\$175.5m or \$1.49 a share a year earlier. Return on average assets was 0.68 per cent against 0.44 per cent.

Second-quarter earnings were C\$112.8m or 94 cents a

were C\$112.8m or 94 cents a share, up from C\$22.5m or 10 cents. The latest earnings were reduced by C\$14m hecause Venezuelan loans were placed on a cash basis.

Bank of Montreal has the heaviest exposure to Third World loans among the Canadian banks. Total exposure has been reduced by C\$368m to C\$4.9bn this year and an additional C\$100m has been provided.

additional C3100m has been provided.

The bank's results include Harris Bankcorp, its US subsidiary, and Nesbitt Thomson, the Canadian securities dealer, both of which improved their results in the second quarter.

### Savings banks agree to link By Laura Raun

in Amsterdam

SAVINGS banks in the Netherlands and Belgium have forged an accord to attune their products and services ahead of a barrier-free Europe. The agreement follows simi-lar deals between Belgian, French, Spanish and Swedish savings banks aimed at better service for foreign clients and

lower costs.

The goal of the European Association of Savings Banks is to promote cross-border cooperation to take advantage of operation to take advantage uses avings banks' regional strengths, branch networks and high market shares.

About 36 banks in the Netherlands and Belgium will co-operate in lending and automatic teller machines.

# moving from Toronto to US VARITY CORPORATION, the said the headquarters move old Massey-Ferguson farm was being considered because

old Massey-Ferguson farm equipment company, once almost as Canadian as the mounted police, may move its headquarters from Toronto to the US.

This is one of several steps considered by Varity as it struggles to win the confidence of investors in its restructured form. Other moves are also being considered. Some of these include the buying back of its own shares, paying com-mon dividends again, a reverse stock split and employee stock

two-thirds of the equity was now owned by US investors. In addition, most of its sales would be in the US, with anguisition of the Kelsey Hayes truck component business from Fruehauf. Varity already has a large auto parts subsid iary in the US.

In the year to January, Varity posted net profit after pre-ferred dividends of US\$82m, or 33 cents a share, on sales of non dividends again, a reverse US\$2.3bn. It cut long-term debt tock split and employee stock ptions.

Mr Victor Rice, chairman, profit at 40 to 45 cents a share.

### Bergen exchange signs Norwegian options deal

THE BERGEN Stock Exchange has signed a general agree-ment with the Norwegian Options Market (NOM) which clears the way for the establishment of options trading on the exchange.

The agreement means that

the exchange will develop and control trading systems for options and other financial instruments, while NOM will be a party to all trades and will continue to be responsible for settlement and clearing func-tions in line with its clearing house status. Trading is expec-ted to begin later this year when the necessary regulatory framework has been finalised by the Norwegian Finance Ministry.

The ministry is expected to

issue a rule book as well as trading licences before the autumn. The electronic trading system will include automatic

matching and block order facilities. It is understood that both put and call stock options will be traded.

### Avesta impresses with interim rise to SKr580m

By Robert Taylor

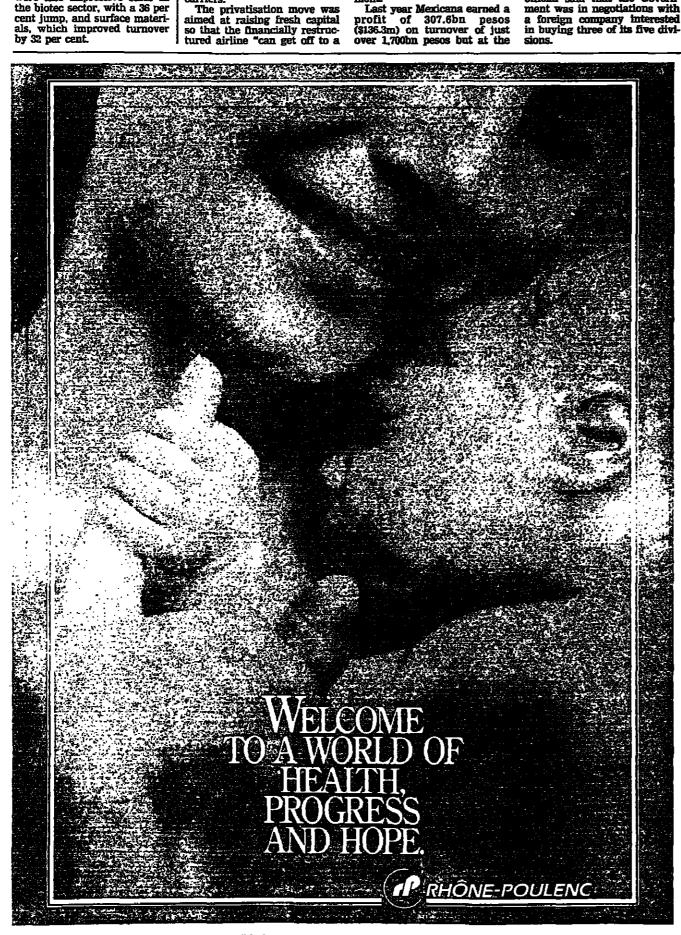
AVESTA, the Swedish stainless steel manufacturer, continues to perform impressively. In the first four months of this year its profits after net financial items was SKr580m (\$87.2m) compared with SKr306m for the same period of 1988. The group's invoiced sales also showed a substantial improvement — up from SKr2.28bn to SKr3.58bn over the same period earlier.

The company said that it

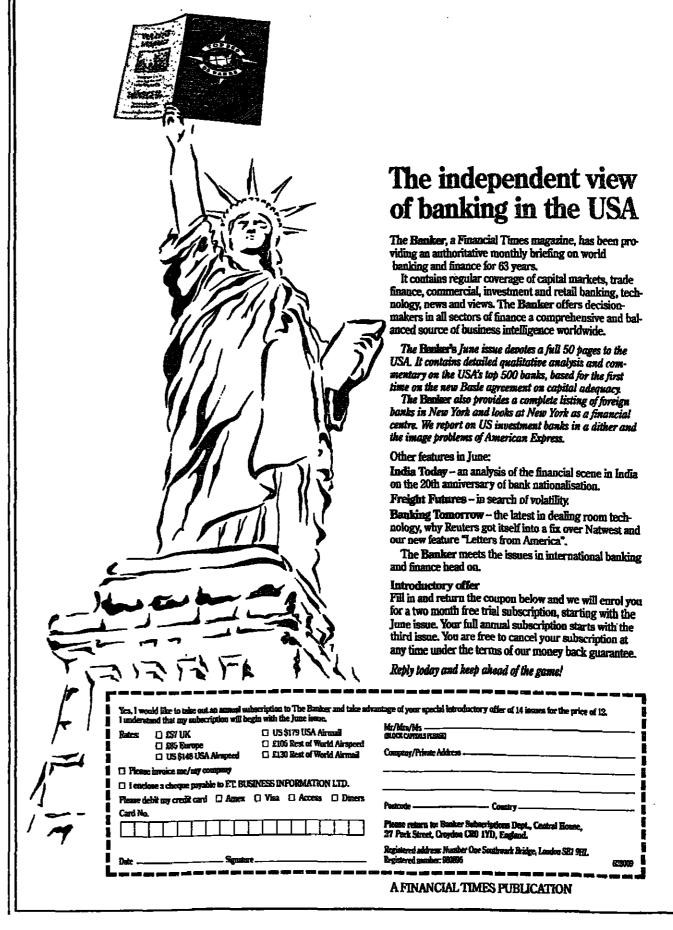
was difficult to assess the mar-ket situation for 1989. Although demand was expected to stay strong it would not be as strong as it had been since 1987 to the present day. "The market's expectations of lower prices, as a result of lower nickel prices, may result temporarily in lower sales," Avesta said. It added that

profit for 1989 ought to be

about the same as last year, when it was SKrl. 32bn.



Sera and vaccines, analgesics, antibiotics, cancer treatment, cardiovascular and psychotropic drugs, vitamins... Through its research and laboratories, including Institut Mérieux, Pasteur Vaccins, Diététique et Santé Nattermann, May & Baker Pharmaceuticals, Pharmuka, R.P. Labo, Roger Bellon, Specia, Theraplix and U.S. Ethicals, Rhône-Poulenc brings new hope to the prevention and curing of disease.



### **UK COMPANY NEWS**

# Lighting up the road for a brighter future

John Griffiths on the changes taking place at Wipac since the management buy-in

promising factory com-plex of the Wipac Group pany, and further substantial glowers over the small country investment is envisaged. Mr town of Buckingham like a Robertson-Smith claims that 19th century satanic mill . Even in the middle of the working day, its brooding, largely windowless buildings a quarter. He says, however, provide few signs that 365 that most importantly, the

employees, survivors from a company much larger force in earlier decades, are toiling away.

Inside, the decor and fittings of management offices positively reek of the values and attitudes of an earlier entoattitudes of an earlier, autocratic age, and entrenched resistance to change.

decades, had been slowly dying

unable to innovate; unable
to adapt to the much stiffer
quality, price and reliability
standards being demanded of it by customers ranging from the vehicle manufacturers themselves to DIY car owners.

Mr Michael Robertson-Smith

deal

The state of the s

ith

acknowledges the depressing nature of the place but has no intention of doing much about it. — yet. The 41-year-old former managing director of Unipart Industries, a division of the formerly State-owned University part parts and accessories group, and his small manage-ment team have been far too busy turning Wipac around as a business since Mr Robert-

a business since Mr Robertson-Smith organised a management buy-in, completed in January last year.

The buy-in, backed by Kleinwort Development Capital, ECI
Ventures and Oranje Nassau
Participatie; appears to have
worked more quickly than
even Mr Robertson-Smith,
Wipac's chief executive, might
have hoped Wipac announced a
25 per cent increase in turnover to £10m in its first year have hoped: Wipac announced a 25 per cent increase in turnover to £10m in its first year under new ownership, and after six straight years of losses the company is now operating profitably, according to Mr Robertson-Smith.

As part of the buy-in Mr.

ROM ITS prominent hill-top, the bleak, uncom-promising factors arranged for film in new productivity has been stepped up by 15 per cent over the past a quarter. He says, however, that most importantly, the company has regained the con-— and contracts — of its single most valuable cus-tomer, Ford.

tomer, rord.

In the past few years, Ford has been drawing up increasingly stringent, formal quality standards for all its suppliers, resistance to change.

Until early last year, the buildings were telling no more than the truth: Wipac, a house hold name in parts and accessories to UK motorists for decades, had been slowly duties

a quality-targeted interactive video communications system for the workforce based on the

for the workforce based on the highly successful programme developed by Ford itself for its suppliers and employees throughout Europe. Backing up Mr Robertson. Smith are manufacturing direc-tor Mr Alan Brown, 47, a for-mer Ford executive involved in quality control, and finance director Mr Chris FitzGerald. rector Mr Chris FitzGerald,

director Mr Chris FitzGerald, 32, an accountant who had spent the previous three years with the military communications division of Plessey.

In keeping with latest component industry practice, each individual on Wipac's production lines is responsible for carrying out his or her own regular quality and its. It is

Mr Robertson-Smith. years. Furthermore, he points
As part of the buy-in, Mr out that there are substantial



Wipac's management team - Alan Brown (left), manufacturing

new technology challenges coming up in area like lighting with which Wipac will have to

rise to meet.

Much of its lighting business is in the original equipment sector, supplying companies like Ford with head and signal lamps, rear light clusters and fog and driving lamps. All have their roots in the original company, set up in 1926 at north Acton, London, as the UK service arm of the Wico Electric Company of the US.

It was bought from its US parent in 1941 by the Jarman family and renamed the Industrial Magneto Company. The Winac trade mark was estab-

Wipac trade mark was estab-lished shortly afterwards, with the move to the purpose-built Buckingham premises coming

in 1959.

It had remained a family-controlled company until the management buy-in, but had last made a profit in 1981 and "there had been seven years of deteriorating relationships with both the original equipment sector and the aftermarket", observes Mr Robertson-Smith.

It was possible to attract financial support for the buy-in because of Wipac's original equipment base, and because its name at least remained well known in the aftermarket. However, he makes clear, nel-

"We gave every operator the authority and responsibility to stop the production line they were unhappy about either the parts or the process.

"That was a culture shock and it cost us dearly in coles

and it cost us dearly in sales. But it put the stop on poor quality... Since then we've seen a total change in attitude and

But despite the progress made to date, Mr Robertson-Smith acknowledges that "we're only about 30-40 per cant down the path we want to

Although there are too many people for Wipac's current turnover, Mr Robertson-Smith insists that the company's turnover will grow to accom-modate them. He expects to be able to achieve £50,000 turn-over per person per year, com-pared with £30,000 now and £23,000 at the time of the ther had appeared likely to survive much longer: "We spoke to the major OEs before buying to see if the situation was retrievable. They were very dissatisfied and looking to rebuy-in. About 60-65 per cent of

source some of the key components for which Wipac was, actually, a sole supplier. But they agreed to give us a short period to demonstrate what we Wipac's turnover is in original equipment, and Mr Robertson-Smith wants to grow the aftersmith wants to grow the amer-market parts and accessories side to at least par with OE.

To this end, as well as being developed and expanded, Wipac's aftermarket ranges are in the process of undergoing a marketing re-launch with new

rine strategy that therefore evolved was to give maximum priority to meeting quality and delivery targets of the vehicle makers — rewarded with Ford granting Wipac preferred supplier status last October.

"We are now doing development work for a number of on the OE front, Mr Robert-On the OE front, Mr Robert-son-Smith accepts that sur-vival, let alone expansion, is a difficult business for compa-nies the size of Wipac in a motor industry which is in the process of globalisation. However, he is optimistic that opportunities will arise for joint ventures and other collabment work for a number of vehicle makers, says Mr Rob-ertson-Smith. Quality was not the only problem – "when we took over we had a totally

oration with similar companies in Europe and even North America and Japan as the glo-balisation process proceeds. The next three to four years

thetic work force — they needed the job but had given up on the company. Consequently, we invested a lot of time and resources in making sure people under the time are the contract the co should prove whether his opti-Wipac really was back on the road." mism is justified — which is roughly the time-scale of a hoped-for Wipac flotation... Employees were told that "ship it regardless" practices

### ANOTHER SUCCESSFUL YEAR IN Publishing, Printing, AND RETAILING

	1989	1988	Crowth*
Turnover	£71.7m	£63.3m	+ 16%
PROFIT BEFORE TAX	£5.8m	£4.4m	+ 40%
EARNINGS PER SHARE	28.5p	21.4p	+ 42%
DIVIDEND PER SHARE	6.86p	5.28p	+ 30%

ANALYSIS OF GROWTH IN TURNOVER:-

- Advertising Revenue
- Newspaper Sales Revenue
- Contract Production Revenue
- Retailing Revenue
- \* For all % figures 1987/88 has been adjusted to 52 weeks.

T. F. Lake, Esq., Company Secretary

ORTSMOUTH & SUNDERLAND NEWSPAPERS, plc



### No firm alternative proposals on the table for Gateway

By Nikki Talt in London and Halg Simonian in Frankfurt

GATEWAY Britain's third largest food retailer, yesterday declined to comment on mounting rumours that it may be seeking some sort of "white knight" escape route from the current £1.87m hostile lever-aged bid being waged by the newly-formed leosceles group. "As far as I'm concerned, it is pure speculation," said chairman Mr Alec Monk yes-terday of weekend press reports that West Germany's

Tengelmann group could emerge as the white knight or, conversely, that US leveraged buyout specialists, Kravis Kohlber Roberts, have bowed out of the situation. Nevertheless, both Gateway and its advisers have said that various ideas had been put to the beleagured group in the wake of the Isosceles bid, and it appears that several avenues have been – and are being – explored. But, as yet, Gateway is not believed to have received

firm alternative proposals from

any party.

Moreover, the Gateway camp
— and presumably any rival
bidder — is still awaiting publication of the revised offer document from Isoscales. The new ument from Isoscales. The new terms, which provide a cash and paper alternative as the cash option of 210p per Gateway shares, were announced last Tuesday, but the formal document — described by the Isosceles camp as complex to prepare — has yet to emerge.

Tengelmann's name has circumstants.

Tengelmann's name has cir-Isosceles since the hid battle started. It is widely accepted that none of the main UK food retail groups could yet involved in the Gateway situa-tion, even if they wished because of monopoly problems. The privately-owned West German retailing chain owned and run by Mr Eriwan Haub, has over 4800 stores around the world, with sales of just under DM35bn in the 1987-8 financial year, up from DM30bn the pre-vious year. The group has been inter-

ested in further foreign expan-sion, partly as a result of strict monopoly constraints in Ger-many and the very tough building legislation which has severely restricted its ability to

set up new supermarkets. We will have to limit ourselves in West Germany and look increasingly for expansion abroad, said Mr Haub at the group's press conference last December.

erates about 57 per cent of its sales from foreign business, principally the US. Its largest foreign operation remains its 52 per cent holding in A & P, the US supermarket group, acquired in 1979.

Back on the bid front, mean while, Tuesday represents "day 39" of the offer, the last date on which Gateway can make new financial information available. Mr Monk has already said that he will write to shareholders, "demonstrating why 210p is

The Royal Bank of Canada (Belglum) S.A. Rue de Ligne 1

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B-1000 Bruss Belgium

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### **IU INTERNATIONAL CAPITAL** CORPORATION

NOTICE TO HOLDERS

(as successor to IU International Capital Corporation N.V.)

U.S.\$85,000,000 Retractable Floating Rate Notes due 1992

NOTICE IS HEREBY GIVEN that in accordance with the Conditions of the above described Notes (the es"), it International Capital Corporation intends to redeem and hereby calls for redemption on 31st July 1989 all the Notes at 100 per cent. of their principal amount. Payment of the redemption price will be made upon presentation and surrender of the Not unmatured coupons appertaining thereto at any of the Paying Agents set forth below:

Orion Royal Bank Limited 71 Queen Victoria Street, London EC4V 4DE,

inque Générale du ibourg S.A., 14 Rue Aldringen

(France) S.A., 3 Rue Scribe,

For and on behalf of

**75440 Paris,** 

The Royal Bank of Canada A.G., D-6000 Frankfurt/Mein 1

Coupons due 31st July, 1989 should be detached and presented in the normal fashion. Interest will ca to accrue on the Notes from and after 31st July, 1989.

IU INTERNATIONAL CAPITAL CORPORATION by:

ORION ROYAL BANK LIMITED

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Federal Republic of Germany

seems set to surface at the extraordinary general meeting of Chloride, the batteries group, this Friday. The meeting has been called to approve the sale of Chloride's motive power business to Compagnie Generale d'Electricife, for

Dr Maurice Gillibrand, a long-standing dissident voice at Chloride meetings and formerly chairman of the Shareholders Action Group - dis-banded when the battery group returned to the dividend list in 1987 - said yesterday that letters have been sent to a number of Chloride's instutitional shareholders. He added that he expects to meet The Prudential, ICI Pension Fund and M&G, the unit trust group,

early this week.
Dr Gillibrand is critical of disposal of the motive power business, claiming that it represents the sale of the most profitable part of the company. and has been necessitated by the sharp rise in debt levels, "mainly as a result of two acquisitions in the USA". He

ited prospects for further growth of the business in its current form" and that "the business would benefit from being part of a major group committed to investing further

the motive power sale, Chlo-ride has surprised the stocktlement - by announcing that it intends to cut the final dividend from 1.5p to 0.55p. It forecast profits fall and the fact

that sufficient cover did not Analysts have estimated, in

### **Evolving Polly Peck** seeks new listings By John Thornhill

POLLY PECK International. the agricultural, electronics and textiles group, headed by Mr Asil Nadir, which was reported to have been hit by a boardroom row, is to seek stock market listings in conti-

nental Europe. Polly Peck yesterday played down a newspaper report of boardroom disagreements following the dismissal of five head office personnel two weeks ago.

A spokesman for the com-pany said: "There is no board-room split and it seems to us that too much has been made of these internal re-arrangements. As the company evolves into a greater global entity it is right that the management should evolve

Polly Peck is seeking listings on the Basle, Geneva, and Zurich stock exchanges through the placing of up to 2.5m shares, representing 1 per

cent of its total share capital.

Polly Peck said it was planning to develop its presence in international debt and equity markets in order to match the increasingly global nature of its manufacturing and trading

Europe although Polly Peck already has an ADR facility in the US and a publicly-quoted Hong Kong subsidiary, in which it holds a 70 per cent

the Swiss investment commu-

and underwritten by S. G. War-burg Soditic, the Swiss arm of the UK merchant bank.

### **Lorimar Telepictures Corporation** 6% Convertible Senior Subordinated Debentures

thill become conventee that it may represent the apparatus and the proposed Mergor and of the other to enter into a supplemental indenture which will provide that, effective as of the date of consummation of the Mergor, the Debertures with the convertible who Time Warner Shares at an effective conversion purce of \$20.8 the perhaps, subject to adjustment in certain instances, as provided in the Indenture.

Medings of the sockholders of each of WCI and Time have been scheduled for June 23, 1989 to consider and vote upon the proposed Merger. It is expected that the Merger will become effective as soon as practicable following such stockholder approvels and satisfaction of all other conditions specified in the Merger Agreement. Dated this 2nd day of June, 1989 at Culver City, California

these, Altus, was given as one of the reasons for the drop in pre-tax profits from £18.2m in 1987-88 to "at least" £12m in

However, since announcing

# A question of compensation disclosure

Robert Rice on the secrecy surrounding the recent pay-off to the chairman of Next

HE REFUSAL by the Next board to reveal the size of the compensation payments made to Mr George and Mrs Liz Davies, who were ousted from the retail group last December, has led to a certain amount of indignation and concern among shareholders.

It also poses the question of what obligations there are on companies to make public such information. For in contrast to Next's secrecy, many British businesses publish details of compensation payments, usually in a footnote to the annual

For example, Blue Arrow, the employment group, was perfectly prepared to reveal that it paid £1.15m to Mr Tony Berry when he was ousted as executive in January. The short answer is that this is a grey legal area and that much depends on the precise circumstances in which a director leaves a company, as the history of the Next case

The issue was raised at Next's recent annual meeting by Mr Murray Gordon, chair-man of Era Group, and, until its takeover by Next, chief executive of Combined English

In response to his inquiry, Next said settlement payments had been made to Mr Davies, the former chairman of the company, and his wife, who had been product director, but the amount could not be disclosed because it was the sub-ject of a confidentiality agree-ment.

Concerned about the accountability of directors, and feeling that shareholders' rights were somehow being trampled on, Mr Gordon, and Mr Pat Hammond-Turner, a former assistant managing director at CES, voted unsuc-cessfully against the re-elec-tion of the Next board. But on Friday Mr Gordon

said he had no plans to take the matter further. He had spo-ken after the meeting to Mr David Jones, Next's chairman, who had been able to reassure him about the deal. By all accounts, he said, the Next board had done a pretty good deal and the settlement to Mr and Mrs Davies was low. This view was echoed by Mr Robin Althaus, an analyst with Kitcat & Aitken, who said he had a hunch that the confiden-

tiality agreement was designed to protect Mr Davies rather than the Next board. The question of compensa-tion normally only arises in connection with the termination of a director's service contract. Removal from the board does not by itself give rise to a claim, although it may put the company in breach of the

director's contract. The basis for a settlement is that the director should be compensated for what he would have earned during the remaining period covered by his contract, less what he actually earned or would be expec-ted to earn during that period. Mr Davies, for example, was clearly a highly employable businessman, as demonstrated



George and Liz Davies, who were ousted from the board of Next last December

by his recent deal with Asda, the supermarkets group.

But what rights, if any, do shareholders have to be informed of the size of any

compensation payment made?
The companies legislation states that it is unlawful for a company to make any payment to a director by way of com-pensation for loss of office, or as a consideration for his retirement, without particulars of the proposed payment, including the amount, being disclosed to, and approved by, the shareholders.

However, this does not apply to any bona fide payment by way of damages for breach of

contract or by way of pension in respect of past services. It is on this basis that some compa-nies have not put compensa-tion payments to shareholders for approval.

Why then do some companies tell their shareholders the terms of compensation settle-ments? Is it simply a matter of good practice and shareholder

Possibly the answer lies in section 320 of the 1985 Companies Act which prevents companies from entering into any arrangement to acquire from a director a non-cash asset which exceeds £50,000 or, if less, 10 per cent of the company's asset value without shareholders' approval.

For this purpose, acquiring a non-cash asset includes dis-charging a person's liability and arguably even that of the company itself. So a compensation payment exceeding £50,000 would be caught unless it had prior approval by a resolution of the company in general

meeting.

If such a payment was made without shareholder approval then the directors might find themselves personally liable to repay the money to the com-

pany.
Section 320 may not have been designed to catch bona fide compensation payments. But would it give Next shareholders, if they chose to pursue it, the leverage they would need to force disclosure of the payles payments? And could need to force disclosure of the Davies payments? And could the shareholders hold the directors personally liable to repay the money, if the pay-ment could not be retrospec-tively approved by the company in a general meeting? Perhaps. But then again perhaps not

Much would depend on the circumstances of Mr and Mrs Davies' departure. The section 320 provisions on shareholder approval only apply where an agreement is reached between the two sides on compensation. They certainly do not apply where the issue goes to court and an award of damages is

More importantly, it is arguable they also do not apply if

the director was dismissed from the board, and his executive functions and the payment was expressed as an out-ofcourt settlement to a claim, or the threat of a claim for dam-

ages for wrongful dismissal.

This is because the provitims is decause the provi-sions apply only to payments to directors and, if the person has ceased to be a director, they do not operate. Any collusion between the two sides to get around the requirement for shareholder approval in this way could invalidate the payment, however, although it

might be difficult to prove. What were the circumstances of Mr and Mrs Davies departure? By all accounts news of their imminent down-fall was relayed to them out of the blue late one night last December.

If this was the case, it would seem perfectly plausible for the Next directors to argue that they were not obliged to seek shareholders' approval for the compensation settlement, because it was reached after Mr and Mrs Davies had ceased to be directors, and was made on an out-of-court basis in the light of their threat to sue the company from here to eternity and back for breach of con-

If the settlement was valid, so too was the confidentiality agreement relating to it, excusing the board from any requirement to disclose to shareholders the size of the payment. But the issue is certainly one yers for hours.

# Varley explains Coalite strategy

Mr ERIC Varley, the former Labour minister who is now chairman of Coalite, yesterday set about defending his company's strategy in the face of a £427m bid from Anglo United, a much smaller company which is also based in Derby-

The thrust of the argument from Anglo is that Mr Varley and his management team have been misguided in devoting their time and and the company's resources to a host of non-core busineses when they should have been concentrating on the core businesses of fuel manufacture and distri-

Mr Varley defended his company's involvement in quarry-

ing, waste management, vehicle distribution and buildor the control of the

particularly when we are are heavily exposed to the declining fuel industry," he said.

He acknowledged that group earnings per share growth had been flat over recent years, but arranged that the record would argued that the record would have been a lot worse had the company not chosen to invest much of the cash generated from energy and chemicals in

the growth areas.

"To concentrate on coal would be madness," he said, challenging Anglo's plans to merge together its fuel busi-

istration holds 43.46m shares

U.S. \$50,000,000

IBM Credit

Corporation

Floating Rate Yen Linked

In accordance with the provisions of the Notes, notice is hereby given, that for the six months Interest Period from June 5, 1989 to December 4, 1989 the notes will carry an interest rate of 9%% per annum. The amount payable on December 4, 1989 against Coupon No. 8 will be U.S. \$486.60 per U.S. \$10,000 principal amount.

By: The Chase Mackettan Bank, N.A. Leodon, Agunt Bank

June 5, 1989

ness with that of Coalite, selling off all the other activities in order to pay off the debt incurred on the deal.

Mr Varley further contended that the energy business had not been neglected, with the company's market share rising despite a decline in the market

He reiterated his point that the bid was opportunistic and claimed that Mr David McErlain, chairman of Anglo, had been singing Coalite's praises when he first approached Mr Varley in December last year with a view to recommending an agreed deal, perhaps to be effected via a takeover of Anglo by Coalite.

### SHARE STAKES

Property Trust: Gillon Holdings sold 150m ordinary shares and no longer has a notifiable interest.
Smith (WH): Prudential Corporation reduced holding to 10.11m 'A' ordinary shares (5.98 per cent) by sale of 50,000.

Spectrum Group: M Stern disposed of 200,000 ordinary and holding now 1.22m (7.1 per

**BOARD MEETINGS** 

(15.07 per cent). Suter has purchased 350,000 of its shares at 194p, bringing cumulative purchases to 6.53m. Throgmorton Trust: Equitable Life Assurance bought 4.63m ordinary shares and holds 27.4m (9.78 per cent). Prudential Corporation sold 10.55m and holds 20.2m (7.21 per cent). Unigroup: KH Yeoh has converted his holding of 1.14m Stormgard: Henderson Admin-

redeemable preference shares into a like number of ordinary. Interest in the ordinary now Wates City of London Proper-ties: PC Wates, director, bought 50,000 ordinary at 185p each. Beneficial interest now 7m shares (5.77 per cent). Williams Holdings: Scottish Widows Fund and Life Assurance owns 16m ordinary (5.27 per cent).

> **BfG Finance** Company B.V. U.S. \$100,000,000 FLOATING RATE NOTES **DUE 1996**

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period 6th June, 1989 to 6th September, 1989 the Notes will bear interest at the rate of 9 3.4% per annum.

The Coupon amount per U.S. \$10,000 Note will be U.S. \$10,000 Note will be U.S. \$249.17.
The Interest Payment Date will be 6th September, 1989. ssel Montagu & Co. Limit Agent Bank

Notice to the shareholders of

CM Investment Serial Funds SICAV Luxembourg, 11, rue Aldringen R.C. Luxembourg No B 29977

> CM ACTIBONDS Société Anonyme d'Investissement Luxembourg, 37, rue Notre-Dame R.C. Luxembourg No B 2008 i

By the extraordinary general meetings held on May 29, 1989, the shareholders of CM Investment Serial Funds and CM Actibonds have approved the following merger procedure in accordance with section XIV of the Luxembourg Company Law of August 10, 1915, as amended: CM Actibonds contributes all its assets and liabilities (the «As-

CM Actionols continues at its assets and infilines (the AAssets) to CM Investment Serial Punds; in exchange of the contribution of the Assets, CM Investment Serial Funds issues to the shareholders of CM Actibonds shares of category B of a new class to be designated as «CM investment Serial Funds - Actibonds» at the rule of one new share of «CM Investment Serial Funds - Actibonds» for each cancelled share of CM Actibonds. as a result, CM Actibonds be wound up and all its shares in issue be cancelled;

bearer share certificates be delivered by CM Investment Serial Funds against remittal of bearer share certificates of CM Actibonds for cancellation; for cancellation; as of April 1, 1989, all assets and liabilities of CM Actibonds be deemed transferred to CM Investment Serial Funds on account of the compartment -CM Investment Serial Funds - Actibonds- and all profits and loss made by the Merged Fund after such date be for

### Tranwood associate in Salvesen contract By Vanessa Houlder at Safeway

By John Thornhill

CHRISTIAN Salvesen, the Edinburgh-based food distribu-tor, has won a management tor, has won a management contract to run a retail distri-bution centre at Bellshill, Glasgow, for Safeway, the supermarket group.

The contract, which will ini-tially run for five years, is understood to be worth several

hundreds of thousands of oungs. Safeway is currently build-

Safeway is currently build-ing the 500,000 sq ft ware-house on a 42 acre site on the Bellshill Industrial Estate. The first stage of this development will open in September 1989 creating 163 Jobs. This will rise to 500 Jobs when the site becomes fully operational in the summer of 1990.

Edbro rises 45%

Edbro, engineer, lifted profits 45 per cent to £4.2m in the year to March 31 on sales up 19 per cent to £31.5m. A final dividend of 8p makes 11p (9p),

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# £2.5m subscription plan talises it at £11.13m. The offer is sponsored by Cambridge Capital and Ariel UK and has

ANALYSIS, an unquoted associate of Tranwood, the USM-traded financial services houses, has launched a £2.5m offer for subscription. The offer, which capitalises the company at £11.13m, follows a £3m institutional placing completed last week.

The company, which operates an on-screen financial information service, said it would apply for its shares to be traded on the Third Market as

soon as practicable.
At the start of the year,
Analysis launched a service, including information from accounts, stock exchange announcements and press cut-tings on UK quoted companies. The company is offering 10m shares at 25p each, which capi-

been underwritten by Tranwood Earl, the corporate finance arm of Tranwood Group. Application lists are expected to close on June 23. The company made a pre-tax loss of £2.57m for the nine months ended March 31, when it had net assets of £426,000. The proceeds of the placing and offer, which amounts to

about £5.1m will be used to meet working capital needs and for acquisitions. It has also announced the purchase of Graphite Investments, a share price information service for an initial £10,000. After the placing, Tranwood will hold 27.8

### U.S. \$45,000,000 Oxford Acceptance Corporation II

Floating Rate Notes due December 1993 Notice is hereby given that the Plate of interest has been fixed at 9.625% p.a. and that the interest payable on the relevant interest Payment Date, December 5, 1989, against Coupon No. 6 in respect of U.S. \$500,000 nominal of the Notes will be U.S.\$24,463.54.

June 5, 1989 London By: Citibenk, N.A. (CSSI Dept.), Agent Bank

CITIBANCO

SPONSORED SECURITIES 3.1 9.0 10.3 7.1 7.1 1.3 35.0 5.4 -5.8 8.9 10.2 -4.9 3.7 8.4 -3.7 12.1 9.4 -3.0 8.8 - 16.4 2.1 2.7 6.7 5.9 11.0 14.7 14.7 7.6 10.3 12.0 - 16.4 3.9 10.7 7.1 68 4.2 4.0 12.3 3.3 9.9 9.1 2.8 10.6 6.8 -5.6 9.3 4.9 27.7 7.5 Scourities designated (SE) and CUSM) are dealt in subject to the rules and regulations of Stock Exchange. Other securities listed above are dealt in subject to the rules of TSA These Securities are dusit in strictly on a matched bargain basis. Neither Grawille & Co nor Grazollic Duvies Limited are market makers in these securities. Gramille & Co. Ltd. Granville Davies Limited

8 Lovat Lane, London ECIR SEP
Telephone 01-621 1212
Member of the Stock Exchange & TSA I Lovet Lane, London ECIR SSP Telephone 01-623 1212 Member of TSA

I.G INDEX LTD, 9-11 GROSVENOR GARDENS, LONDON SW1W OBD Tel: 01-828 7233/5699 An AFBD member Reuters Code: IGIN, IGIO Jun. 1752/1761 -5 | Jun. 2112/2122 -6 | Jun. 2516/2528 +25 Sep. 1790/1799 -6 | Sep. 2158/2168 -7 | Sep. 2552/2564 +25

Prices taken at 5pm and change is from previous close at 9pm

Financial times Stock indices											
ம 2	Jua 1	May 31	May 30	May 26	May 25	19 High	189 Low	Since Con High	npliation		
84.61	84.88	85.43	85.88	85.20	86.06	89.29	84.61	127.4	49.18		
96.23	96.37	96.94	96.92	96.91	96.87	99.59	95.93	105.4	50.53		
745.5	1745.6	1755.7	1765.3	1778.8	1777.3	1837,5	1447.8	1926.2	49.4		
171.4	171.5	173.5	172.6	171.2	170.4	196.1	154.7	734.7	43.5		
84.39	1085.59	1091.06	1098.99	1103.81	1100.44	1131,41	921.22	1238.57	61.92		
1				<del></del>							

### the account «CM Investment Serial Funds - Actibonds»; the newly issued shares of CM Investment Serial Funds be equal in all respects within the compartment «CM Investment Serial Funds - Actibonds» and entitled to the result attributable to this class of shares, in respect of the full corporate year ending Septem-Government Sees. .... 8 Fixed Interest ..... May 31, 1989 On behalf of the Board of Directors of Gold Mines .... FT-Act All Share ..... 108

SHAREHOLDER discontent

ing" performance by one of the year to end-March. Mr Ray Horrocks, chairman of Chloride, said in a document to shareholders last month, that he believes "there are lim-

in the sector".

market - and appears to have added to shareholder disgrunsuggested that the decision had been made in the light of the

the light of a very heavy tax charge, Chloride's earnings per share might be little more than

This will be the company's first listing in continental

The listing follows six Polly Peck bond issues made in the Swiss market since 1987, which, the company believes, has raised its profile among

The placing is to be managed

NOTICE TO HOLDERS OF

due August 18, 2001

Warner Communications Inc. ("WCI"), the parent corporation of Lorimar Telepictures Corporation ("Lorimar"), the sentent corporation ("Lorimar") has entered into an Agreement and Pian of Merger dated as of March 3, 1993, as amonded and resisted as of May 19, 1989 (the "Merger Agreement"), with Time Incorporated ("Time") and TV Sub Inc. a wholly owned subsidiary of Time ("Sub"), pursuant to which Sub will be merged with and into WCI and WCI, as the surviving corporation, will become a subsidiary of Time (the "Merger"). In connection with the Merger, Time will change its name to "Time Warner" [In the proposed Merger, each than outstanding share of Common Stock, par value \$1 per share, of WCI ("WCI Share") will be converted into the right to receive 0 465 of a share of Common Stock, par value \$1 oper share, of Time Warner pursuant to a Rights Agreement dated April 29, 1986, as amended, between Time and Mergen Shares of Service A Participating Preferred Stock, par value \$1 oper share, of Time Warner pursuant to a Rights Agreement dated April 29, 1986, as amended, between Time and Mergen Sharesholder Services Thisti Company, as Rights Agreement dated April 29, 1986, as amended, between Time and Mergen Sharesholder Services Time Warner Common Stock and rights (to the wittent then outstanding) collectively referred to as "Terie Warner Common Stock and rights (to the wittent them outstanding) collectively referred to as "Terie Warner Shares"), with cash to be pold in frout of fractional shares, as a result of the Merger, Common Stock and rights (to the "Debontures") were assued under an indenture dated as of August 18, 1986, as amended by a First Supplemental Indenture dated as of January 11, 1989 (the "Indenture"), between Lorimar and The Chaso Manhattan Barik. N. A. as Trustee, and currently see convertible into WCI. Shares at a conversion price of \$85,24 per share pursuant to the terms of the Indenture. Pursuant to Sections 105 and 1206 of the Indenture vision of the Indenture Pursuant to Section due August 18, 2001

This announcement appears as a matter of record only

### TIENSE SUIKERRAFFINADERIJ N.V.-RAFFINERIE TIRLEMONTOISE S.A.

Tienen, Belgium

through its wholly owned subsidiary TIENSE SUIKER EUROPE B.V. Rotterdam, the Netherlands

has acquired HARRY'S SA Chateauroux, France



ASLK-CGER BANK Brussels - London - New York

**Bryant** Group

Invest in Quality

HOMES

PROPERTIES

CONSTRUCTION

021-711 1212

Rebuilding

**Scottish** 

barracks

M.J. GLEESON GROUP is to

reconstruct Dreghorn Barracks at a cost of over £20m for the

Property Services Agency (Scotland). It was built on the outskirts of Edinburgh in 1940.

The upgrading works start in June, are scheduled to take 32 months to complete, and

involve demolition, refurbish-

ment and a range of new-build construction,

Among existing buildings to be altered and extended will be the guard house, battalion HQ, band building, estates office, Sandhurst block, and armoury.

At the same time, Gleeson

#### **DIARY DATES**

#### PARLIAMENTARY

Today

Lords: Electricity Bill. Motion on Magistrates Courts (Remands in Custody) Order.

Temerress .

Commons: Employment Bill, conclusion of remaining stages. Pesticides (Fees and Enforce-

ment) Bill, conclusion of remaining stages.
Opposed private business. is: Water Bill, report. Licensing (Amendment) Bill

committee. Select committees: Home Affairs: subject, annual report of the Police Complaints Authority, Witnesses: Association of Chief Police Officers and the Police Federation. (Room 15, 4.0 p.m.)

Employment: subject, Legionnaires Disease. Witness: chief environmental health Officer, Richmond-on-Thames. (Room 20, 4.30 p.m.)

Commons: Opposition debate on a subject to be announced. Motion on Treatment of Offenders and Community Service Orders for Northern

Lords: Debate on the case for Britain's full participation in a fully integrated European Community.
Debate on homelessness.

Question to Government on selection of new radar system for the European Fighter Air-Select committees: Defence: subject, Type 23 frigate orders and repair of HMS Southamp-

ton. Witness: Admiral Sir Julian Oswald, Chief of the Naval Staff. (Room 16, 10.50 Foreign Affairs: subject.

#### **FINANCIAL**

COMPANY MEETINGS.

Executor Clothes, Queens Hotel, City Square, Levels, 11.00
Heden MacLellen, Le Muricien Hotel, 21, Piccasilly, W., 12.00
Howden-Shust, Copthorus Hotel, George Square, Glasgow, 12.00
Lettont Hidgs., Caledonian Hotel, Princes Street, Edinburgh, 12.00
Ferry Grp., Sevey Hotel, Street, W.C., 12.00
Tellos Hidgs., ironsongets Hall, Bertices, E.G., 12.00
SOARD MEETINGS-Pinele

der data Laund Telecomputing DIVIDEND AND INTEREST PAYMENTS-

Allide Partnership Group.
Aspen Comms. Afg
BHH Group 2.75p
Beckman (A.) 1.95p
Bloeing Co. 45cts.
British Aerospace 13.2p
Electrolux B Skt1.5
Enserth Corp. 20ds.
Europaan Luliante Sp.
Europaan Luliante Sp.
GNACS, Australia (Frigato)

GMAC, Australia (Finistos) 1214 % Na. 1991
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Highland Dictilierios (155p.
1346 Credit Corp. Filg. Raise Yes-linked htts. 4/
1246 SATA.66
Lickined Corp. 45chs.
Lytes (S.) 1.5p
Flootwell int. Corp. 19.5cts.
Floits-Royce 4.2p
SL hes Group 1.25p
Scottish Ty 15.25p
Swedon (Kingdom of) 101-1% Nits. 1998
5.3125pc.

12.08
Alias Converting Equipment, 4, Breadgets,
E.G., 12.30
Bank of Scotland, The Mound, Edinburgh, 

Leigure, Cale Roya, ..., L. W., 12.00 Hd. Howard Hotel, Temple Place, ... Higgs & Hill, Housen't Hotel, Temple Place, Strand, W.C., 11.00 Pentics, Cate Royal, 68, Regent Street, W., 12.00 72.30 Traec, Hyde Perk Hotel, 66, Knightabridge, S.W., 12.00 IARD MEETINGS-

75,44

Archimedes inv. Tet. Brooks Tool Eng. Curtion Comms. Cranbrock Elect. DIVIDEND AND INTER

Scot (Henry) & Sone 12p Cadbury Schweppen 9% tet king. Deb. 82/93 Zadbory Schweppen 4.45pc.
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Greenhalt Whilely 4-2 % Deb. 57/82 2.25pc.
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Settorna (N.) Brown (N.) Markewood Foods Hazlewood Food Ortfame Int. Rodinstrikt (J.)

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Hong Kong. Witness: Sir David Wilson, Governor of Hong Kong. (Grand Committee Room, Westminster Hall, 10.30

Agriculture: subject, the new beef premium. Witnesses: Agriculture Ministry, Department of Agriculture for Northern Ireland, Meat and Livestock Commission. (Room 20, 10:45

Trade and Industry: subject, British Shipbuilders. Wit-nesses: Mr John Lister, chair-man, and Mr Tony Newton. Industry Minister. (Room 15, 10.45 a.m.)

Employment: subject, part-time work. Witnesses: Employment Department officials. (Room 18, 4.15 p.m.) Home Affairs: subject, drug trafficking and related serious

crime. Witnesses: Customs and Excise Officials. (Room 18, 4.15 Public Accounts: subject, the Next Steps initiative. Witness: Mr Peter Kemp, Cabinet Office. (Room 16, 4.15 p.m.)

Transport: subject, London egional Transport, Witnesses: strman and officials. (Room

Commons: Debate on the Army.

**Lords:** Antarctic Minerals Bill Brunei (Appeals) Bill and Park-ing Bill, third readings. Water Bill, report. Control of Smoke Pollution

Commons: Private Members' motions.

Lords: Dock Work Bill, second

BOARD MEETINGS.

ERRU 3477.12

Bark, of Ireland Und. Fitg. State Prim. Cap.

18a. \$253.14

British Island Alexans 0.20 keminster 1.125p win Group 3.7p

SIST.77 Herr Finance (Caymun) Gld. Pitg. Hete Serial No. 1869 2460.24 Reed Intl. 5<sup>th</sup> Red. Prt. 1.75p On. 7<sup>th</sup> Red. Prt. 2.45p Svenska Collution AB Son B Std 25

FRIDAY JUNE 9
CCMPANY MEETINGSMidsud Inn Crowne Pizza Midsud
Hotel, Peter Street, Manchester, 12:00
ethaven, New Connaught Rooms, Great
Cueen Street, W.C., 11:00
ompoier, People Grp., Mountbetten Hotel,
Montroith Street, Covent Gardan, W.C.,
VI.00
eublist (J.1), Merchant Taylors Hall, Aidwart, York, 12:00
gone of Lecae, Nathropole Hotel, Richonal Plouis; Brown Shipley Chancer

Willoughty's Cone DRVIDEND AND INTEREST PAYMEN APY Sp Aloun, Aluminism 28chs, Allied-Signal 45cts. Anglo American Inv. Tet. 2270chs. Anhouse-Busch 1866. BAT Inds. 12.59 Barskamerica Gorp. 15cts.

SERENTARION CONT. 100M.

Bethaven 0.65p
Cassiet 1.2p
Cityleon 1p
Cityleon 1p
Colory 2c
Conder Group 5p
Dun & Bradetreet Corp. 600ts.
East Daggeriontein Mines 60cts.
East Daggeriontein Mines 60cts.
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Do. 3 160cts.
Cold & Bane Metal Mines 6.4p
Grasham Local. 50ts.
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Loadon & Manchester Group 7.65p
Moggitt 1.85p
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National Medical Enterprises 77cts.
New Central Witnesserand Areas 47cts.
Orange Free Sattle Invt. 4760s.
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Prestwick Hidgs. Gife
Republic Hidgs. SA (Reg) 21cts.
Oc. 18rl 21cts.

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Inter-Lembert 64km.
Noom Gold Hidge. 108cts.
Noom Gold Hidge. 108cts.
SATURDAY JUNE 18
DIVIDEND AND INTEREST PAYMENTSINTERE MOOTO GOTP. 76cts.
Floradays Sent-Units 1/20th St.) General Motors Corp. 750a.
Do. (t.s. Baroleys Sent-Unite 1/2 3/75cts.
Grace (9 S) & Co. 35cts.
Houston Inde. 74cts.
Int. Business Mach. Corp. 12 tots.
Travelers Corp. 65cts.
Travelers Corp. 65cts.
Travelers Corp. 65cts.
United Tech. Corp. 40cts.
United Tech. Corp. 40cts.
SUNDAY JANE 17

DIVIDIEND AND INTER

#### Trade Fairs and Exhibitions: UK

(01-385 1200)

June 21-23

June 30-July 2

(0923 226210)

(04868 21231)

Personal Investment Market-

Select Investment Show (06333

Royal Show (0203 696969) Kenilworth

July 46. Fluid Power and Transmiss

International Fancy Food and Confection Show (01-940 3777)

International Express & Cou-rier Services Exhibition and Conference (0420 87383)

International Professional Broadcasting Recording Public Address Exhibition – PRO AUDIOASIA (0494 729406)

IBC: Spain - the new benefit

environment (01-236 4080) Hotel Melia, Madrid

The Economist: Honouring the

business experts: a seminar with Peter Drucker (01-839

Royal Garden Hotel, London

CBI Conferences: Employmen

law - The latest proposals and impending legislation (01-379

International Business Com

munications: The brand new product development confer-ence for Europe (01-236 4080)

Cambridge Publications: Plan

Gloucester Hotel, London

June 12-13

June 15

Centre Point, London

ing Show (01-948 5166)

Olympia

NEC, Birmingham

NEC, Bleminghan

Enterprise and the North West Opportunities for Action Conference and Exhibition, (01-642

G-MEX Centre, Manchester June 6-9 Screen Print and Screen Print Wear '89 (01-340 3291) NEC, Birmingham Fine Art and Antiques Fair

(01-385 1200) June 11-14 Business to Business Exhibition (01-729 0677)
Business Design Centre,

June 12-15 July 11-13 International Advanced Mate INTERKNIT/INTERWEAVE Exhibition (0533 544017)

NEC, Birmingham **Electrical Products Exhibition** 

#### **Overseas Exhibitions**

International Air Show (01-225

June 19-23 International Wine, Spirits & Equipment Exhibition - VINI-TECH-VINEXPO (01-225 5566)

June 20-25 International Building and Construction Exhibition

#### **Business and management conferences**

Business Research Interna-Business nesearca the tional: Structuring and financing acquisitions (01-637 4383)

Cafe Royal, London

June 5-6 The British Institute of Energy Economics: Fourth annual North Sea conference (01-997

Management Training Consul-tants: Techniques of supervisory and management training for trainers (0533 627062)

Acquisitions Monthly: Strategic alliances - an alternative way ahead (01-823 8740) Inn on the Park, London June 6-7

Financial Times Conferences: Commercial aviation and aerospace - Towards the year 2000

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**SPANISH** BANKING

Finance &

Investment

The Financial Times

proposes to publish

this survey on:

22nd June 1989

For a full editorial

synopsis and advertisement details,

please contact:

Mr Richard Oliver

on Madrid 577 09 09

-or write him at

Financial Times

Serrano 58, 28001

Madrid

Fax number: Madrid

564 18 92

Alternatively

Sandra Lynch Number One

Southwark Bridge London SE1 9HL

Tel: 01-873 4199

**FINANCIAL TIMES** 

RREY SUSSEX VARWICKS. Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there kave been no changes to the details published

#### **CONSTRUCTION CONTRACTS**

## Glasgow shopping centre

SIR ROBERT MCALPINE CONSTRUCTION MANAGE-MENT has been appointed construction manager for the £100m Buchanan Centre, a shopping development in Glas-gow, being undertaken by the Buchanan Centre Partnership formed between Bredero Prop-

erties and Grosvenor Square Properties. Occupying a 3 hectare city centre site, the development will be bounded by Killermont Exhibition - FLUIDTRANS Street, North Hangver Street, Cathedral Street, Dundas Street, Buchanan Street and Glasgow's new Concert Hall on Sauchiehall Street. rial & Process Engineering Exhibition and Conference

The Buchanan Centre will contain about 50,000 sq metres of retail space plus covered malls, atria, service areas, ser-

Loch Lomond

HALL & TAWSE GROUP has

nearly £25m worth of orders Work has begun on a £5.5m

hotel and country club for Craigendarroch at Cameron

Park, Loch Lomond. In Tulloch, Perth, work has

started on the first 56 unit

Chesterton. Staffordshire.

Tawse in the south of England,

Test Valley Borough Council.

IDC, part of the AMEC Group, has been awarded a guaran-teed maximum price contract

of £11m for work at the Bridg-end factory of Sony (UK). Work

includes a two-storey extension to provide 10,000 sq metres

manufacturing space, as well as offices and plant services.

There will be a separate energy centre and effment treatment plant.

**PROPERTY** 

**INVESTMENT &** 

**FINANCE** 

The Financial Times proposes to publish this

6th July 1989

For a full editorial synopsis and advertisement

details, please contact:

Joanna Dawson

on 01-873 3269

or write to her at:

Number One Southwark Bridge

> London SEI 9HL

FINANCIAL TIMES

Cheltenham & Gloucester

**Building Society** 

£125,000,000

Floating Rate Notes due 1994

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 30th August, 1989 has been fixed at 141/2% per

anaum. The interest acruing for such three month period will be £354.45 per £10,000 Bearer Note, and £3,544.52 per £100,000 Bearer Note, on 30th August, 1969 against presenting of Succession of Succession (Succession of Succession of Succes

tation of Coupon No. 2.

30th May, 1989

along Buchanan Street.

vice corridors and a five-storey car park, the upper level of which will link with rooftop parking over the shopping area to provide parking for 1500

At the northern end of the centre, John Lewis will have a 25,000 sq metre department store on five levels, and other stores and shops will occupy the shopping mall extending to the southern end of the centre

Construction of the centre will be principally of reinforced concrete frame. The Buchanan Street elevations and the John Lewis store elevations to Killermont Street will be principally of stone and glazing. This will include glazed feature entrances and the Buchanan

a full height glazed atrium facade, giving visibility of various shopping levels to the exterior approaches at the southern end

The Dundas Street facade will incorporate facing brick-work together with stonework and the elevation on to the main British Rail cutting will be mainly brickwork. The multi-storey car park will be faced with a predomi-

nance of brickwork and limited stonework to provide design variations Work will include rock exca-

vation and bridging over a main British Rail cutting and Cathedral Street. The project is due for completion in just

Three main offices, computer, training and restaurant areas,

courtyard and linked together.

will be built around a

#### New HQ for Pearl Country club and hotel at will house over 2,000 staff.

WIMPEY CONSTRUCTION UK is to build new corporate headquarters for Pearl Assurance in Peterborough at a cost of £71.5m. Work completion by the end of 1991.

To be built on a 24-acre riverside site at Lynch Wood, the new 400,000 sq ft office

phase of a £12m domestic refur-bishment project. This involves Jones wins £25m orders refurbishment of seven blocks J.M. JONES CONSTRUCTION of flats built in the 1930's. As GROUP has won contracts worth more than £25m. The orders span a variety of buildwell as providing over 400 homes - a mix of private housing, housing co-operative and housing association homes ings, including speculative office developments, hi-tech the 31/2-year project will proindustrial, retail and even ecclesiastical, (in the form of vide jobs and training in an area of high unemployment. an extension to Christchurch, Woking) and include refurbishto be used to build a stores and warehousing complex worth over film for British Gas at ment as well as new build pro-

The largest is valued at 28.7m for an 89,000 sq ft speculative four-storey office development for Grosvenor Square Over £13m worth of partnership and joint venture housing has also been won by Hall & Properties Group on a 2.5 acre site on London Road, Brackalong with a \$5m contract to build the new civic offices for nell. Work has started, for completion in November 1990. Longs of Bath, a subsidiary, was chosen by Littlewoods to

ALFRED MeALPINE CONSTRUCTION is to build an 28.4m extension to the Royal Marsden Hospital, London. The

refurbish a three-storey retail which it has acquired from Woolworth Holdings. Worth £3m, the work is to be completed in 16 weeks.

out a 43,000 sq ft retail unit for Littlewoods in the Ogfagon Centre. A "fast track" contract of 12 weeks will ensure that work is completed by mid-Au-

Other projects include con-struction of seven two-storey office blocks in Poole in a contract worth £3.8m. The schem is a joint venture between J M Jones Group's development wing, Markham Developments, and Marley Properties.

four-storey building with undercroft will be erected around the chapel, and will fill the courtyard at the rear of the

main block. The 60,000 sq ft building will provide four operating theatres, recovery area, theatre reception, store, chang-

The main building will be of three storeys, and all will be air-conditioned, and equipped will construct mess facilities for officers, sergeants and for computers and office technology systems. junior ranks; community, education, recreational, medical. and training centres; junior

Sports centre at

In High Wycombe J M Jones has won a £2.2m contract to fit

#### Extending Royal Marsden Hospital

ing area, improved catering facilities, and two wards for head and neck, and gynaecology patients.

# ranks' living accommodation; social club (NAAFI); sports pavilion; and various stores and minor buildings.

Berkhamsted LOVELL CONSTRUCTION has been awarded a £3.8m design centre at Berkhamsted Herts.

for Dacorum Borough Council. The centre will include a 25 metre swimming pool, three squash courts, a multi-purpose sports hall and a fitness room providing multi-gym equip-

Outside facilities include a flood-lit, all-weather synthetic surface playing area for 5-a-side soccer, hockey, netball

and tennis.

Parking will be provided for some 90 cars including spaces for the disabled.

The two-level building will

be of steel-frame construction clad in profiled aluminium sheeting with a single pitched steel sheet roof. Work starts this month with completion by autumn 1990.

#### NOTICE OF REDEMPTION Commercial Intertech Corp.

**6% Convertible Subordinated Debentures Due 2001** 

ISIN No. CR 0042133438

CONVERSION PRIVILEGE EXPIRES AT 5:00 P.M. BASTERN TIME (UNITED STATES) ON JULY 5, 1989

NOTICE IS HERESY GIVEN that, at 5:00 p.m. Eastern Time (Linked States) on July 5, 1989 (the "Redemption Date"), purstant to Section 1101 of the Indenture, dated as of July 15, 1988, among Commercial Sheering, Inc. (now known as Commercial Intertech Corp.) (the "Company"), The First National Bank of Boston, as Trustee, and Bankers Trust Company, as Principal Paying Agent, the Company will redeem all of its outstanding 6% Convertible Subordinated Debentures Due 2001 (the "Debentures"), at a redemption price of \$1,040.00 plus accrued interest of \$56.67 from July 29. 1988 to the Redemption Date, for a total of \$1,098.87 for each \$1,000 principal amount of Debentures (the "Redemption Price"). The Redemption Price will be due and payable on each \$1,000 principal amount of Debentures on or after the Redemption Date upon presentation of the Debentures and all compons maturing after the Redemption Dete at the offices of the Paying Agents described below, From and after the Redemption Date, interest thereon shall ceases to accrue and holders of Debentures will not have any rights as such holders other than the right to receive the Redemption Price, without interest, upon surrender of their Debentures.

Prior to 5:00 p.m. Eastern Time (United States) on July 5, 1989, Debenture holders may convert any or all of their Debentures into the Company's Common Stock at the rate of one share per \$17.00 of principal amount of Debentures surrendened plus cash in list of fractional shares (provided that each Convension Agent not in New York will not accept shares for conversion after its close of business on the Redemption Date). The method of delivery is at the option and risk of the holder, but the method used must permit delivery to the Conversion Agents on or before the close of business, local time, of such Conversion Agents on July 5, 1989, If Debenture holders do not convert their Debentures prior to 5:00 p.m. Eastern Time (United States) on July 5, 1989, their right to convert will teaminate and the Debentures held by them will be redeemed as provided above.

To convert Debentures into Common Stock, holders must present their Debentures with all unmatured coupons, (a) duly endorsed on the form of the Conversion Notice on the reverse side of the Debenture or (b) duly assigned to the Company or in blank, with an election to convert or other valid written notice (and all such items must be received) prior to 5:00 p.m. Restern Time (United States) on July 5, 1989 at one of the following incations (provided that each Conversion Agent not in New York will not accept abares for conversion after its close of business on the Redemption Date).

#### Conversion Agents

Renkers Trust Company Tal: 212-250-8571

To receive the Redemption Price, Debenture holders must present their Debentures with all unmatured coupons at one of the following locations:

#### Paying Agents

Belgium Tel: 323-515-9111

Corporate Trust and Agency Gr London Branch 1 Appoid Street Broadgate London EC2A 2FIE England Tal: 441-682-2387

Bankers Trust Compan 12-14 Rend Point des Tel: 331-43-59-62-82

The Company has engaged as Standby Purch

By: The First National Bank of Boston, as Trustee

1285 Avenue of the Ar New York, New York 10019 Tel: 212-713-6249

1 Pinebury Avenne idon, England EC2M 2PA Commercial Intertech Corp.

London Branch

Union Bank of Switzerland

To the holders of Mortgage Capital Trust I

Class A-1 Bonds Due 1st June, 2017 Notice is hereby given that the interest rate on the Class A-1 Bonds for the interest period 1st June, 1989 through 1st September, 1989 is

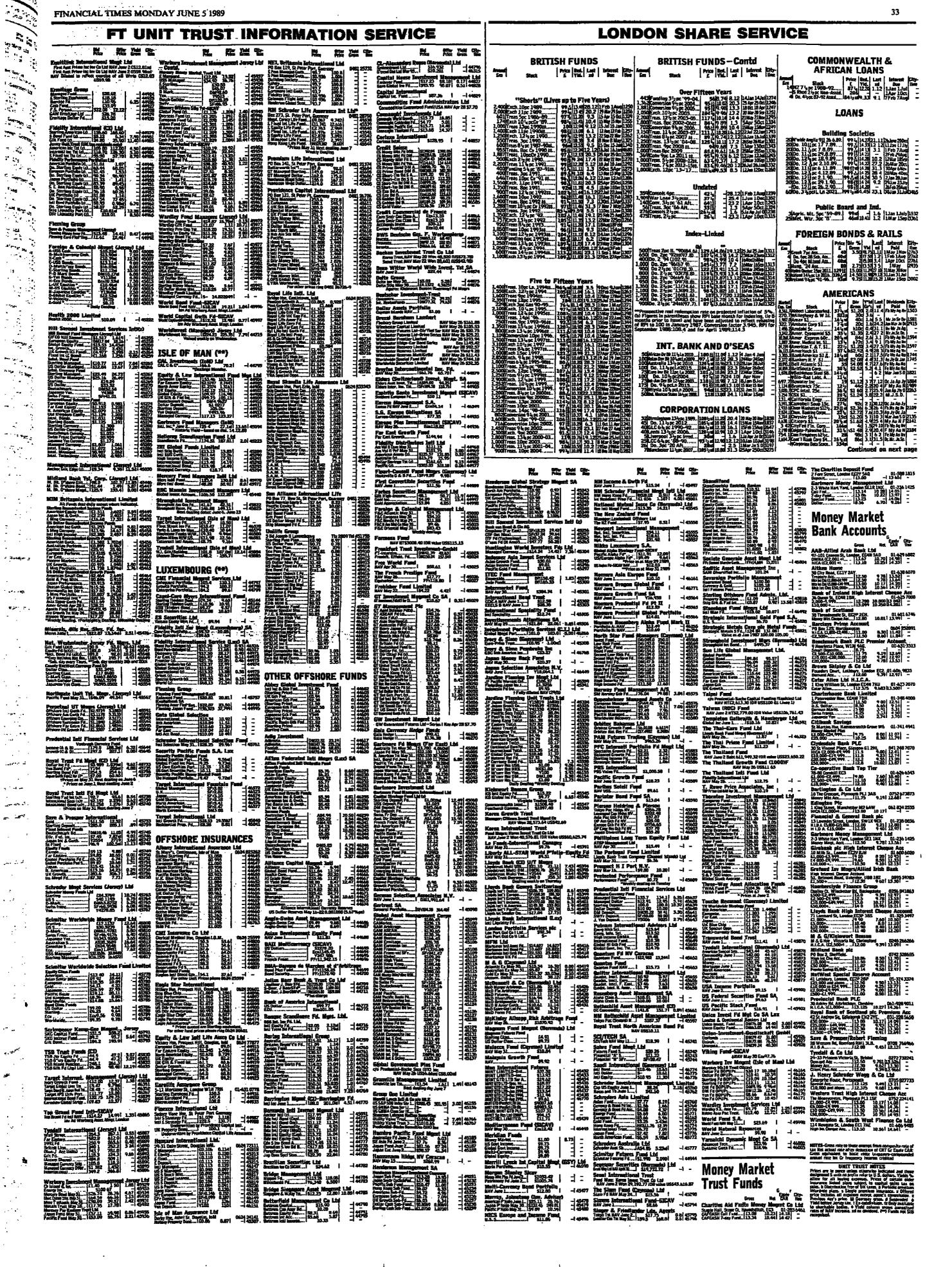
By: Bankers Trust Company, as Trustee.

Collateralized Mortgage Obligations, Series A

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For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (tisted below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

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37.) - Conta

#### CURRENCIES AND MONEY REVIEW

# Bank neatly sidesteps a difficult decision

A NEAT sidestep and some dazzling ball control was the reaction in the City to the Bank of England's performance on the London money market last week.

This was particularly evident on Thursday. When dealers looked at the factors likely to influence the market that day they were confident of a substantial day-to-day credit shortage, possibly running as high as £500m.

There was therefore some incredulity when the Bank of England forecast a flat credit position, but it soon became obvious that this simply meant the authorities had no intention of operating in the market before the result of the West German Bundesbank's council meeting was known.

The Bank of England could in effect sit on its hands. If a shortage had been forecast and the authorities had offered to buy bills during the morning the dealing rates would have been taken as a signal on base

2 IN NEW YORK

Sterling index

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June 2

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**EURO-CURRENCY INTEREST RATES** 

1312-1312 1211-12:6 74:7 1211-12:6 13:48:5 13:48:5 85:85 94:85 94:85 94:85

Long term Eurodollars; two years  $9_h^*$ - $9_h^*$  per cent, three years  $9_h^*$ - $9_h^*$  per cent, four years  $9_h^*$ - $9_h^*$  per cent, four years  $9_h^*$ - $9_h^*$  per cent nominal. Short term rates are call for US Dollars and Jaganese Year others, two days police.

EXCHANGE CROSS RATES

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It has been said that rela-tionships within the Group of Seven main industrial nations are perhaps not too cordial at present. This is partly a reflection of the recent strength of the dollar - putting upward pressure on inflation in other countries and suggestions that the US is more committed to the idea of G7 when the dollar is falling. But it also points to a lack of willingness to cooperate on many matters, both political and economic, among the European nations.

The Bundesbank was therefore perhaps unlikely to give any helpful clues to the Bank of England on the outcome of its council meeting, leaving the UK central bank to worry and wonder. Under the circumstances it was quite understandable that the Bank of England dodged the issue on interest rates until it was more confident that sterling was not about to suffer another sharp

blow.
The pound has fallen by

**CURRENCY RATES** 

0 790664 1.24158 1.49634 17:3474 51,7366 9 5882 2.77990 8.37073 1794 31 177 298 N/A 150,451 8.26196 2.13366 2.13366 2.1063

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Ope Year

1.920 £5.20 1.206 40.95

about 5 per cent since the heginning of the year, and on the Treasury's economic model of the beleaguered pound, or this leads to a rise of 1 per cent in inflation after a year.

At almost the same time that the Bundesbank announced no change in its credit policies after a period of nervousness that German rates were about to be pushed higher - the Bank of England revised the London credit position to a shortage and bought bills at an unchanged rate.

This was a signal that base rates could remain at 14 per cent, but still left the market suspecting that if the Bundesbank had announced a rise in its discount or Lombard rates the Bank of England would have moved quickly to protect the pound with another upward twist in the interest rate spiral

US employment data on Fri-day was then looked to for fur-ther guidance on interest rates, but in the event there was no sign the Federal Reserve was

any other foreign currency.

CURRENCIES, MONEY AND CAPITAL MARKETS

US non-farm payrolls in May rose by only 101,000, against forecasts of 200,000. This weak result encouraged hopes that the Federal Reserve would ease its monetary stance. The Southwest Bank of St Louis, a US provincial bank, cut its prime lending rate by % per cent to 11 per cent, but there was still no sign that the Fed is adopting a more accommodative view on interest rates.

Liquidity was drained from the New York banking system on Friday, via matched sales. This scotched hopes of an immediate cut in US interest rates, but as far as the UK is concerned last weeks events. on the international stage, did not increase pressure on ster-ling and may have given the authorities a little breathing space on base rates.

Colin Millham

June.2	Bank of England lodes	Morgan <sup>60</sup> Guaranty Changes %
Stelling	92.5	-18.7
U.S Dollar Canadian Dollar	71.6 102.7	-5.6 -0.7
Austrias Schilling	106.4	444
Belolan Franc	105.7	-6.4
Danish Krone	102.6	:24
Deersche Mark	1124	#168
Series France	107.0 110.0	+16.2
French Franc	98.8	159
Lira	933	-19.6
Yee	140.6	+70.3

_	CTHE	R CURRE	NCIES
	June.2	£	\$
	Argentina	278.05 - 280,40	175.00 - 177.90
	Australia Brazii	2.1010-2.1035 1.8110-1.8205	1.3225 - 1.3235
	Finland	6.9435 - 6.9685	4.3940 - 4.3960
	Greece Hong Kong	265 70 - 270 <u>20</u> 12 3495 - 12 3665	167.65 - 170.35 7.7730 - 7.7750
	kan	117.50*	72.50°
	Korea(SU)	1047.20 - 1055.65 0.46800 - 0 46940	663.90 - 669.30 0.29570 - 0.29650
	Kungalt	65.15-65.25	40.90 -41.00
	Ma <del>iays</del> ia	4 2920 - 4.3045	2,6790 - 2,7030
	Mexico A. Zeakand	3915 05 - 3917 90 2 7 105 - 2 7 156	2464.00 - 2465.00 1.7110 - 1.7140
	Saodi Ar	5.9360 - 5.9395	3.7500 - 3.7510
	Singapore S. Af (Car)	3.0960 - 3.1055 4.3570 - 4.3695	19505 - 19525 27450 - 27500
:	S, Af (Fu)	6.5665 - 6.7055	4.1320-42195
1	JAE	41.15-41.25 5.8125-5.8160	25.90 - 25.95 3.6720 - 3.6730
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June 2	Day's spread	Clase	Che month	9,0	Three months	9.a.
5	1.5800 - 1.5930	1.5915 - 1.5925	0.55-0.52cpm	4.03	1.76-1 7100	ب
oada	1.9055 - L9225	L9195-1.9205	0.26-0.15cpm	1.28	0.87-0.7000	16
therlands. Igium	350-3524 6515-6555	3.50 h - 3.51 h 65 25 - 65.25	2-13-cpm	6.62 5.34	53-55pm	6.5 5.3
19001 00021k		12135 12145	32-27cpm 5%-4%creom	300	144-13499	43
<b>20</b>	1.1625 - L.1645	L1646 - L1655	0.50-0.45cpm	4.89	130-120	42
Germany	3.114 - 3 124	3117-312	1%-14.prpm	6.98	54-54 pm	6.8
togal	258,10 - 259.80	258.10 - 259.10	15-65cds	-1.86	53-16809	-L7.
## m	197.15 - 198.45	197.15 - 197.55	8-7cpm	0.46	10-1765	-0.2
7		2261 12 - 2262 12	3-1f1repro	1.06	10-8pm	1.5
WEY	11.28-11.31%	11.29% - 11.30%	23, 23 aresm	2.79	83 <sub>1</sub> -73 <sub>1</sub> 904	2.7
nce	10.54% - 10.61	10.574 - 10.584	44-44com	4.89	121-12500	4.8
		10531 - 10542	2-1 Lorean	213	63-5300	23 85 63
20 trla	22412 - 22614 21,90 - 22.00	2254 - 2264 21.90 - 21.93	14-157pm	864 6.43	4%-4% pas 36-33% pas	27
tzerland.	267-2694	2674 2684	124-114 groom	5.59	41 <sub>3</sub> -33 <sub>200</sub>	5.9i

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Jape2	Day's spread	Clase	Car mouth	% p.a.	Three regetts	% 92
JK?relandi	1.5600 - 1.5930 1.3530 - 1.3655	1.5915 - 1.5925 1.3630 - 1.3640	0.55-0.52mm 0.20-0.25ofts	4.03 -1.98	1,76-1,71pm 0.15-0.25db	43 99
anada Ketherlands . Beigium		12060 - 12070 22045 - 22055 40 90 - 41.00	0.26-0.30cfls 0.49-0.47cpm 5.00-3.50cmm	-2.78 2.59 1.24	0.80-0.86ds 1.22-1.18pm 12.50-9.50em	-2.7: 2.1: 1.0:
Penmark N. Germany	7.64% - 7.69 1,9520 - 1,9745	7.62% - 7.62% 1.9570 - 1.9580	0.75-0.50aresm 0.49-0 46pfpra	0.98 2.89	0.70-0.30pm 1.25-1.21pm	82 25 -6.0
oriogal galo jaly	123.95 - 125.49	162.55 - 162.65 123.95 - 124.05 14204 - 14214	65-95cds 38-48cds 3.30-3.80(red)s	-5.88 -4.13 -2.98	210-280dis 130-145dis 9.50-10.20dis	-4.4 -2.7
erway rance	7.0934 - 7 14 6 63 - 6.70	7.094 - 7.104	0.60-0.95oresis 0.55-0.50cpm	- <u>1.22</u> 0.94	2.35-2.65ds 1.05-0.95pm	1.4 2.6
wedez agan	6.61 - 6.65 4 141 35 - 142 40 13.81 4 - 13.86 4	6.61 % - 6.62 % 141 70 - 141.80 13.81 % - 13.82 %	0.95-1,10 <del>oredis</del> 0.57-0.55ypm 3.10-2,60gropm	-L85 4.74 2.47	3,00-3,25ds 1,58-1,55pm 8,10-6,60pm	-1.66 4.4 2.1
witzerland .		1.6845 1.6855	0.27-0.24cpm	120	0.75-0.70pm	17

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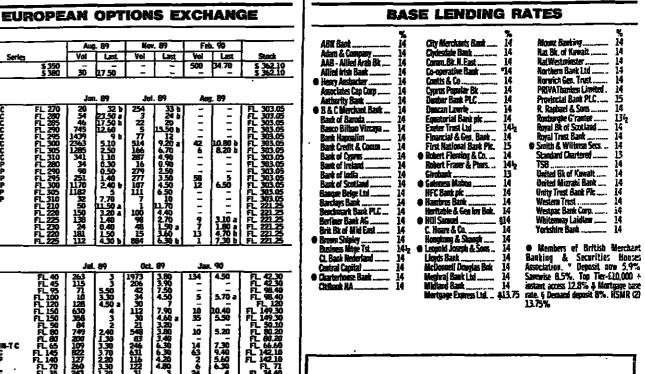
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WEEKLY C	HANG	E IN W	ORLD INTER	EST RA	TES
LUNDON	Jane_2	change	HEW YORK	June.2	cisange
Base rates	14	Unch'd	Prime rates	117	Unci'd
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Band I Bills	13%	Linch'd	3 Mb. CO	9.345	-0.255
Band 2 Brits	13%	Unch'd	FRANKFURT		!
Band 3 Bills	134	Unch'd	Londard	6.50	Linch'd
Band 4 Brits	퍊	Unch'd	One mitte betertaan	6.650	-0.100
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3 Mus. Bank Bills	ES.	1 +6	PARIS		
τοκγά Ι		1	intersention Rate	7.25 81	Unch'd Linch'd
One rounts Bills	53, 51,	7	Three month	812	# <u>#</u>
Three month Bills	514	-6		-16	"#
8RVSSELS	_	Ι. :	MILAN Cae month	12%	+1,
One mosth	85	**	Three month	124	+4
	āj	۵۰- ا	,		
AMSTERDAM Ose month	7 10	-0.07	DUBLIK	85	Uech'd
Three month	7.10 7.27	028	Three proptis	91	Unch'd
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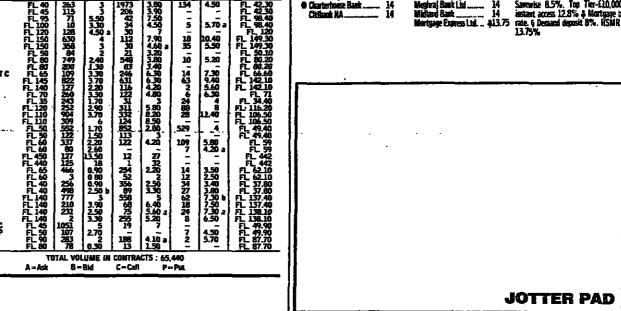
FT-ACTUARIES WORLD INDICES

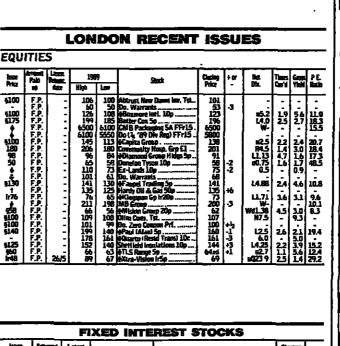
Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND			HDAY JU	E 2 1999			THURS	BRUL YAGS	1 1999	00	LLAR INDE	<u> </u>
REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	US Dollar Index	% change since Dec.30 '88	Pound Sterling Index	Local Currency Index	% change local cur- rency since Dec.30 '38	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency index	1989 High	1989 Low	Year ago (approi
	132.54	-8.3	123,43	116.63	+3.6	4.96	132,44	124.83	116.98	157.12	128.28	144.1
Australia (87)				123.22	+39.0	2.09	118.92	112.08	122.58	124.16	92.84	87.8
Austria (19)	120.74	+25.9	112.45	132.04	+6.1	4.15	128.56	121.17	131.89	137.10	126.33	121.6
Belgium (63)	130.43	- 3.5	121.47	120.80	+ 11.3	3.40	137.77	129.88	120.41	138.27	124.67	121.5
Canada (125)	138.27	+10.1	128.77	187.64	+ 18.0	1.79	177.26	167.07	186.00	181.03	165.35	123.2
Denmark (38)	180.93	+6.2	168.50		+ 17.6	1.55	144.20	135.92	133.80	159.16	125.81	134.5
Finland (26)	145.79	+ 11.4	135.77	134.47		3.01	117.63	110.87	124.14	122.79	112.57	95.0
France (128)	120.75	+5.0	112.45	125.86	+ 15.1	2.33	83.92	79.10	86.51	90.40	79.56	77.0
West Germany (100)	85.55	-2.7	79.67	87.07	+7.3		113.22	106.71	113.00	140.33	111.80	102.6
long Kong (49)	112.52	+0.6	104.78	112.30	+0.2	4.81	138.17	130.23	144.32	151.38	125.00	132.8
reland (17)	138.07	+4.8	128.58	142.68	+ 15.6	2.95	76.87	72.45	82.61	86.88	74.97	70.5
taly (97)	78.10	-8.3	72_74	82.89	-0.2	2.66	178.08	167.85	160.63	200.11	177.66	170.0
lapan (455)	177.95	- 7.1	165.72	159.44	+5.4	0.49			191.62	185.03	143.35	139.8
Malaysia (36)	185.03	+28.9	172.32	192.48	+ 28.6	2.49	182.85	172.34		228.10	153.32	160.7
Vexico (13)	228.10	+40.9	212.42	614.62	+51.8	0.82	222.31	209.54 108.71	601.46 117.65	122.22	110.63	105.1
Netherland (42)	116.94	+4.0	108.90	117.69	+ 14.5	4.38	115.34			76.02	64.82	82.0
lew Zealand (24)	85.07	- 3.7	60.60	59.17	+3.8	6.23	65.28	61.53	59.31		139.92	
forway (26)	177.51	+27.8	165.31	171.06	+ 38.2	1.55	175.03	164.97	170.34	196.39		122.1
Singapore (26)	161.98	+29.5	150.85	145.67	+30.0	1.90	160.78	151.54	144.66	161.98	124.57	117.1
South Africa (60)	132.07	+ 13.0	123.00	120.54	+22.7	4.38	130.87	123.35	119.45	144.86	115.35	134.70
Spain (43)	149.32	+0.6	139.06	140.27	+ 10.1	3.56	147.55	139.07	140.45	156.17	143.14	159.5
Sweden (35)	158.61	+ 9.7	147.71	155.44	+ 18.5	2.21	157.50	148.45	155.69	162.00	138.45	123.6
	74.94	-4.0	69.79	78.29	+7.6	2.40	72.72	68.54	76.82	79.76	67.81	79.6
Switzerland (57)	139.01	+27	129.46	129.46	+ 16.7	4.46	137.49	129.59	129.59	153.33	134.53	135.5
Jnited Kingdom (314) JSA (557)	132.76	+ 17.3	123.64	132.76	+ 17.3	3.37	131.35	123.80	131.35	132.76	112,13	108.5
_ <del></del>	116.03	+ 1.2	108.06	113.58	+ 13.0	3.59	114.24	107.67	113.21	121.70	112.65	107.9
Europe (1005)	153.72	+10.1	143.15	147.70	+ 19.9	1.93	151.76	143.04	147.22	155.61	137.95	118.79
Nordic (125)	173.62	-6.8	161.69	155.86	+ 5.3	0.72	173.75	163.77	156.99	194,72	173.45	166.3
Pacific Basin (677)	150.63	-4.4	140.28	138.98	+7.5	1.62	149.98	141.36	139.52	154.22	149.40	143.0
Euro - Pacific (1682)	133.00	+ 16.8	123.86	132.02	+ 16.9	3.37	131.65	124.08	130.68	133.00	112.79	109.2
North America (682)	101.50	-0.1	94.52	103.75	+9.9	2.92	99.58	93.85	103.06	105.29	96.30	90.7
Europe Ex. UK (691)	121.75	-23	113.38	111.07	+4.1	4.85	121.84	114.83	111.40	137.6 <del>6</del>	121.75	122.2
Pacific Ex. Japan (222) World Ex. US (1880)	150.06	-3.9	139.75	138.37	+7.8	1.70	149.41	140.82	138.86	162.77	148.80	142.1
Norld Ex. UK (2123)	143,28	+2.3	133,43	137.16	+ 10.2	2.05	142.42	134.23	136.97	146.04	138.06	128.5
Morid Ex. So. At. (2377)	142.95	+2.3	133,13	136.55	+ 10.7	2.25	142.03	133.87	136.39	146.65	138.82	129.13
World Ex. Japan (1982)	126.30	+ 10.1	117.62	124.68	+ 15.0	3.51	124.84	117.66	123.77	126.30	114.51	109.50
The World Index (2437)	142.88	+23	133.06	136.44	+ 10.7	2.26	141.96	133.80	136.27	146.51	138.83	129.1

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US \$ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 139.65 (US \$ Index), 114.45 (Pound Sterling) and 123.22 (Local).
Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Limited, 1987
CONSTITUENT CHANGES: Deletions: 2/6: Weston (G.) Foods (Australia) and Cadnetix Corp. (USA). Name changes: 1/6: Hong Kong Land to Hong Kong Land Holdings (Hong Kong) and Laporte Inds. (Hidgs) to Laporte (UK).



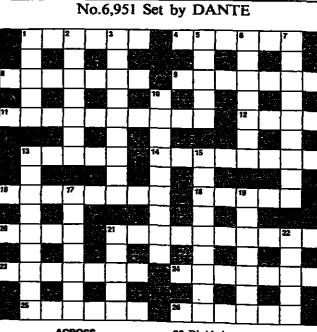




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£	100	Date	High	Low	1	1.5	١.
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issue	Amount	Latest			S OFFERS	Closing	_
issue Price p	Amount Paid up	Laiest Resunc Date		GHT:	S OFFERS	Closing Price 9	+ er -
Price p	Paid up	Retunc	19 High 95pm	Low 71-pan	Stock Bear Brand	Price 9 81 <sub>2</sub> pm	-1
Price p 9  r175 260	Paid up 6 NU Sur	Resunc Date	19 High	Low 7-5-part 75-part 330-pa	Steek  Bear Brand  CF Yeoman  Crewwirt 100	Price 9 8½pm 105pm 53em	- -14 +2
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Price p  r175  r175  260  40  265	Paid up Hii Hii Hiii Hiii Hiii	Resurc Date 8/9 7/6	19 High 95 pm 110 pm 53 pm 23 pm 50 pm 70 pm	Low 7-bast 75pm 33pm 18pm 45pm 4pm	Steck Bear Brass CLF Yeoman Concentric 100 Fairung (London) Gold Gregales Trutt Hellarch Crr.	Price 9 81 <sub>2</sub> pm 105pm 53pm 20pm 45pm 6pm	
Price p 9 ir175 260	Paid up 6 HLI Stat NIS NID	Renurc Date 8/9 7/6	19 High 9½ pm 110pm 53pm 23pm 23pm 7pm 1½0m	Low 75-pert 75-pert 33-pert 18-pert 43-pert 4 pert	Stack  Bear Brand	Price 9 81 <sub>7</sub> 0m 105pm 53gm 45pm 45pm 5gm	- -14 +2 +1
9  r175  260  40  265  40  17	Paid up 6 NU Sid Niii Niii Niii Niii	Resurc Date 8/9 7/6	19 High 95 pm 110 pm 53 pm 23 pm 50 pm 70 pm	Low 7 types 7 types 33pes 18pes 4pes 4pes 5pes 20pes	Steck Bear Brass CLF Yeoman Concentric 100 Fairung (London) Gold Gregales Trutt Hellarch Crr.	Price 9 81 <sub>2</sub> pm 105pm 53pm 20pm 45pm 6pm	
9  r175 260 40 265 40 17 60 185 209	Paid up 6 NU Sur Nu Nu Nu Nu Nu Nu Nu Nu Nu Nu Nu Nu Nu	8/9 7/6 	19 High 95 pm 110 pm 130 pm 23 pm 23 pm 50 pm 7 pm 11 ppm 10 tran 30 pm 44 pm	Low  7-part 7-part 7-part 7-part 7-part 3-part 3-part 5-part 20-part 2-part 20-part 20	Stock  Bear Bread	Price 9 8½pm 105pm 53pm 45pm 45pm 45pm 5pm 31pm 23pm	+2 +1 +1 +4
Price 9   175   260   17   60   185   200   18   40   17   60   18   60   18   60   18   60   18   60   18   60   18   60   18   60   60   60   60   60   60   60   6	Paid up 6 NIII Mil Nii Nii Nii Nii Nii Nii Nii Nii sed dividen	Results Date 8/9 7/6 7/6 5/7 b/6 db Figure	19 High 91-pm 110-pm 120-pm 53-pm 7-pm 11-pm 10-pm 3-pm 10-pm 3-pm 10-pm	Low  7-ban 7-ban 7-ban 18pm 43pm 43pm 2pm 2pm 20pm 20pm 2nesetiss	Stock  Bear Brasil  Curserin (100 Fairnay (Lowlon) Gold Greenies Trotk Milardh Gry, Reger Hotels Sentor Engineering Teilos Hildys, 28p Vikroplant  Exturnees to Dividend rate paid or payable and and vield S Dividend gast vield exclud-	Price 9 81-pm 105pm 55pm 45pm 45pm 31pm 23pm 23pm 23pm 23pm 23pm 23pm 23pm 23	-14 +2 +1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1
9   1775   260   265   40   185   200   185   200   185   18	Paid up 6 HII HII HII HII HII HII HII HII HII H	Results Date 8/9 7/6 7/6 5/7 b/6 d b Figure	High 9½ pm 110pm 53pm 23pm 7pm 1½ pm 1½ pm 1½ pm 35pm 446pm 5 based on ptill giblen as	Low Theat Tryan 33pm 43am 4pm 5pm 20pm 20pm 20pm 20pm 20pm 20pm 20pm 20	Stack  Bear Brand  CLF Yeoman  Currents (10)  Fairway (London)  Gold Greenies Trott  Hillarch Grp  Regort Hotels  Senior Engineering  Tellos Hilds. 20p  Stillprates of Dividend rate paid or payable and any rield so United and still green and any senior series conduct. Il Dividend on prayable and on prayables, we're seniors. Il Dividend and series and on prayables and on prayables.	Price 9 81-pm 100-pm 53-pm 45-pm 45-pm 5-pm 31-pm 23-pm 23-pm and vield ba	-14 +1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1
Price p 9 ir175 250 40 265 40 117 60 185 200 a Appuali ner taxes mercay, or appearant mineral	Paid up  6 NIII Sid Niii Niii Niii Niii Sed dividen on divident on divident or other off	Results Date 8/9 7/6 5/7 6/6 5/7 6/6 6/6 Figure 1 on full ci annualised annualised and vicial interview and vicial	High Plypm 110pm 53pm 53pm 70pm 11-ppm 10-ppm 30pm 44pm 10-ppm 44pm 10-ppm 44pm 10-ppm	Low 7 b.part 77 bpm 33980 18pm 43sm. 4pm 20pm 20pm 20pm 31ps 4pm 20pm 20pm 20pm 20pm 20pm 20pm 20pm 20	Stack  Dear Brand  U.F Yearnet  U.F Yearnet  D.G. Yearnet  Fairway (London)  Gold Greenies Trekt.  Hidarch Grp.  Regort Hotels  Senior Engineering  Telfos Hidop. 20p  Vibropland  selj wrates d Dividend rate paid or payable  end and yield S Dividend and yield excludit-  and on previous year's commigst. If Dividend  and year of previous year's commigst. If Dividend  and year of previous year year year.	Price 9 8-1-per 10-5-per 10-5-per 25-per 25-per 35-per 35-per 15-per 31-per 37-per 36-per 36-	-1, +2 +1 -1, -1, -1, -1, -1, -1, -1, -1, -1, -1
Price p  9  1775 260 40 265 40 17 60 185 200  Appeal in	Paid  up  6  NII  Mid  NII  NII  NII  NII  Sed divident  co divident	Restate Date 8/9 7/6 7/6 5/7 5/6 6 Figure d is Figure d on full ca amounts ical extent of yield based a file a stime	High  9's pre 110pm 55pee 120pm 55pee 7pm 10's pre 10's pre 44qua 55pm 44qua 55pm 44qua 55pm 44qua 55pm 44qua 55pm 44qua 55pm 55pm 44qua 55pm 55pm 65pm 65pm 65pm 65pm 65pm 65pm	Low  7 to part 7 to part 7 to part 7 to part 7 to part 7 to part 7 to part 3 to part 3 part 5 part 5 part 5 part 5 part 5 part 5 part 6	Stock  Bear Brand  Cury Yeoman  Cury and Cury and  Content in 100  Fairway (Cury and  Fill and firm  Senior Engliseering  Exit problem  E	Price  9  81-per 105-per 55-per 45-per 45-per 45-per 50-per 31-per 32-per 30-per  -1, +2 +1 -1 -1, -1, -1, -1, -1, -1, -1, -1, -1,	



CROSSWORD



**ACROSS** 1 Enraptured railway guard 4 This led Mrs Gandhi to be a

queen in her own country 8 Not slow to voice an opinion (7) 9 Assemble for prayer (7)
U Secures rent for one of a

group of shops (5-5)
12 I'm a leader of Moslems (4)
13 Teachings that follow closely on a degree (5)

14 One is not expected to live on them (4.4)

16 In an electric oven it con-

trols the roast, perhaps (8) 18 She's a fairy queen to the Spanish (5)
20 Prepare to put out with the

turn of the tide (4)

25 Man enters another order

26 Divided capital of songwri-1 The third half? (5) 2 fil-treatment (7) 3 Tough sister in trouble with

social worker (9)
5 End of the line for a crimi-6 I'll leave things behind with

hostility (3-4)

Red port for Michael, perhaps (9)

Until pool is improved there's contamination (3)

Dry-heated in order to lose moisture (9)

Uniform includes tanned belt for officers (3,6)

Seat of Empire (7)

17 Seat of Empire (7) 19 Shy retiring sailor to flush when flustered (7)

21 Grows in waves (10)
23 Red vehicle goes to one of the pits (7)
24 Twice told of new point to be included (7)

25 Mortherners one may meet in noisy taverns? (5)

26 Cirl's measurements (5)

The solution to last Saturday's prize puzzle will be published

prize puzzle will be published with names of winners on Sat-urday June 17.

#### **MONEY MARKETS** London rates end below the week's high

INTEREST RATES finished on a steady note in London last week. Three-month interbank closed at 14 per cent, in line with the present level of UK bank base rates. This was a rise of 'a per cent from the

#### UK clearing bank base lending rate 14 per cent from Hay 24

previous Friday, but was well below the levels touched earlier in the week when rumours circulated about a major row on economic policy between Mrs Margaret Thatcher, the Prime Minister, and Mr Nigel

Lawson, the Chancellor.

At one time three-month money was offered at 11's per cent but rates eased when the Bundesbank failed to increase official interest rates in West Germany and hopes were raised of a cut in US rates following Friday's news on May

US employment trends.
It was noticeable however

that the differential between short term rates in London and yields on long term British Government bonds narrowed. The international situation took the pressure off short term rates by the end of the week, while the suggestion that the Treasury is to cut

back on the programme of gilt repurchases pushed up longer term gilt yields. There were several reasons to believe the Bundesbank would not raise rates last week, including the failure of the dollar to establish a level above DM2.00 and a net inflow of liquidity to the Frankfurt

banking system at last week's Bundesbank securities repur-chase agreement tender. The market was not surprised when the Bundesbank council left rates unchanged, but the threat of inflation remains a worry and a tightening of monetary policy can not be ruled out within the next month or so.

#### BCCI FINANCE N.V. U.S. \$50,000,000

#### Guaranteed Fluating Rate Notes due 1990

Notice is hereby given pursuant to the Terms and Conditions of the Notes that for the six menths from 5 June 1989 to 5 December 1989 the Notes will bear an interest rate of 9%% per annum with a coupen amount of U.S.\$495-63

London & Continental Bankers Limited Agent Bank

William Sept.

### WORLD STOCK MARKETS

1989 June 2 Set High Low Jam 2		1989 Price High Lew June 2 Kroner	CANADA	
2.733 2.630 Geosser 4400 17.100 13.600 feeser 4400 17.100 17.	re d'Dat. 71.00 778 778 779 789 799 792 795 795 795 795 795 796 797 796 797 797 797 798 799 797 798 798 797 798 798	1997   Price   1997   Price   1998   Law Junt 2   Price   1998   Law Junt 2   Price   1250   7,510 Adia Intl	TORONTO  Closing prices June 2  Quotationa in centa values method 5.  18623 Abiticle P 1975 1984 1984 19 19 19 19 19 19 19 19 19 19 19 19 19	### Shork   High Low Chord Chang   Sales Start   High Low Close Chang   ### Close Chang   Sales Start   High Low Chang   ### Close Chang   Sales Start   High Low Chang   ### Close Chang   Sales Start   High Low Chang   ### Close Chang   Sales Start   High Low Chang   ### Close Chang   Sales Start   High Low Chang   ### Close Chang   Sales Start   High Low Chang   ### Close Chang   Sales Start   High Low Chang   ### Close Chang   High Low Chang   ### Cl
10,900 8,900 Do. AFV	1.95   272.5   221.5	1050 1.625 Do. (PtCts) 2.050   5,900 4,050 Schladler (Bt) 5,900	11/17/10   10/16/16/16/16/16/16/16/16/16/16/16/16/16/	19740 Power PM 12d 110 12d+ 14 18047 Placer Dm 3154 154 155 1 120707 Power Corf 5167 12d 12d 12d 12d 12d 12d 12d 12d 12d 12d
1349.1 1,090 Carisberg 1298.4 687 546 Printing	75 Au 681 326.7 236 Vieg	5075 4,325 Zirich ins 4,625 2,136 1,675 Do. Poj 1,975	INDI	CES
324.1 276.2 East Adunts	1.530   1989   1989   Price   1.080 95   Basso Batto Viz. 1.028 2   1884   1.337   1885   1.380   1.080 95   Basso Batto Viz. 1.028 2   1.081 95	1989   Price   Rand	NEW YORK   DOW JONES   June   May   May   1989   State complication   2   1   31   30   High   Low   High	June   June   May   1989   Low   AUSTRALIA   AUSTRALIA   1524.8   1531.5   1530.0   1542.6   1583.7 (25/5)   1412.9 (7/4)   AUSTRALIA   AM Deducarius (0/1,000
185.5 192.5 Amer 173.5 100.5 63 Catter 100.5 63 100.7 100.5 63 100.7 100.5 63 100.5	43/20 39,896 General Assicer 40,022   550   330   Koipe	5.9 27.25 FreSharb Danfold 28.5 1. 56.75 Codd Freidr SA 56. 78.1 22 Heartcheast 24.75 10.8 8.15 Higherd Steed 20.8 13.5 32.5 Kinerce Gold 37.5 PAS 30.25 PAS	Section   Sect	FRANCE CACGEORRIC GR. 12/12/120
1989	Price     1989   Low   June 2   Price	### January   Price   1987   Price   P	Sum 2   Millions   M	CRS TM Rtm form that 1983) 264.7 244.7 243.4 245.5 245.5 CO(5) 288.3 Cy(1) CRS All Ste Cent 1983) 190.8 190.6 199.6 191.3 191.3 CO(5) 166.7 Cy(3) 166.7 Cy(3) 190.6 SE Cy(1)859 643.4 635.65 638.63 648.68 666.61 CI(9)49 467.17 Cy(1) Syntapore Smalls Trans and CO(12)660 1305.21 1292.94 1279.24 1275.17 1310.02 C17/5 1030.69 (4/1) SOUTH AFRICA ISE Gold (28)4778) 1391.0s 1377.0 64 12575.0 1639.0 C29/30 1291.0 C19/20 ISE Instituted (28)47780 2623.08 2413.0 66 2413.0 66 2413.0 2581.0 C29/40 1961.0 Cy(1) SPAIN Machiel SE CIG(12)850 310.35 312.36 313.18 313.12 313.18 C31/5 268.61 Cy(3) SWEDEN Jambson & P. C31/12/50 4018.9 4024.6 4030.0 4053.9 4053.9 C30/5 3333.9 Cy(1) SWEDEN Swett End C31/12/50 694.4 660.2 671.5 672.8 694.4 Cy(5) 613.1 Cy(1)
1,570   1,57	1,790   1,790   1,790   1,99	1.72 0.37 Pizzer Wissing 0.40 1.75 2.1 Pizzer Padific 2.62 2.6 2.15 Pageldon 2.22 1.76 4.3 Resizes Gelffet 4.97 1.8 9.2 Rothmass Aust. 9.39 1.7 1.48 S.A Brewing 2.02 1.45 3.28 Sartos 3.74 1.335 Sartos 3.74	Friday Stocks Closing Change an day traded price on day 1950 Closy Change price on day 1950 Closy Change price on day 1950 Closy Change price on day 1950 Closy Change Price on day 1950 Closy Change Price on day 1950 Closy Change Price on day 1950 Closy Change Price On C	WORLD M.S. Capital Intl. CL/L/709 6st 501.4 500.8 499.0 519.0 CL7/20 491.2 CR/30  § Subject to official recalculation.  Base values of all indices are 100 except Brisssels SE and DAX - 1,000 JSE Gold - 255.7 JSE ladustrials - 264.3 and Australia. All Ordinary and Mining - 500; (c) Closed. (d) Unavailable.  Travelling by air on business?
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## Dilemma of giving the teams their due

7 he telecommunications company GTE has just introduced a new pay-ments system at one of its US factories which attempts to overcome what could become an increasingly sharp dilemma for many employers: the ten-sion between introducing more collaborative teamworking and performance related pay.

Many companies are increasingly introducing teamworking to break down traditional demarcation lines between skilled and unskilled, blue and white-collar workers. GTE is pursuing this approach not only on the shopfloor, but also

The company's extensive employee involvement programme has led to the creation of project teams, problem solving teams, and cross-functional teams, incorporating managers, supervisors and shopfloor workers, as well as shopfloor team-

Teamworking can produce a measurable increase in productivity through promoting flexibility between different grades of workers. Teams involving managers and shop-floor workers can apply a wider range of expertise to solving problems such as plant layout. The collaboration inherent in teamworking also breeds a loyalty and team spirit, which brings efficiency gains over and above flexibilities.

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Mr Bruce Carswell, GTE's vice president for human resources, says: "We have to involve people more in design-ing rules and fashioning objec-tives. From that involvement we get greater commitment. The whole idea of employee involvement and teaming will be vital to the way we work in future." Yet this imperative to raise efficiency and quality through teamworking has to converge with a second imperative: to reform payment systems so people are paid more according to their perfor-

#### An atomised workforce

Most performance-related pay schemes, especially those introduced recently in the UK, link rewards to appraisals of an individual's performance. Taken to its logical conclusion individual performance-related pay would atomise the workforce rather than bringing it together in collective effort. Thus it could undermine the

basis for the efficiency gains of collaborative teamworking. Mr Carswell says: "With teamworking we are moving towards a situation where it will become increasingly diffi-cult to isolate the individual contribution of a single worker, it will be more diffi-cult for an individual on their own to make a dramatic difference to performance."

To overcome this, GTE is piloting a team-based payment system which is also linked to performance. Staff at one of its factories have been grouped into teams, which will be paid according to a competitiveness index rather than a cost of liv-

ing index.
The team's pay is linked to how well it does in relation to cost and quality targets drawn up in relation to the company's main competitors such as

General Electric.
The spread of teamworking should break down the traditional boundaries of collective bargaining. Pay deals struck for entire factories or compa-nies could be replaced by pay-ment systems linked to the performance of smaller work

This may create problems for unions. But it should also set union criticisms of performance-related pay on a new

footing.

A modernising union movement could easily put itself on the side of efficiency by supporting the new collectivism of teamworking, and insisting that individual performance should play only a limited

The future of payment systems may turn on the debate between collective and individual approaches. But it is not simply a debate between the old collective approach of unions and the new individualistic approach of 1980s managers. The most important tension will be within new approaches to human resource management - between the new collectivism of teamworking and the new individualism of performance-related pay.

Charles Leadbeater of effecting a welcome reduc-

istening to Rand Aras-kog, chairman and chief executive officer of ITT, it is sometimes easy to get the impression that he is a man on a moral cru-

"It would be a little bit silly to say that I am puritanical," he says. "But I do feel very strongly about ethics in American business. I think that if business leaders won't be outspoken any more, for right and for ethics, they are making a mistake.'

Such sentiments could hardly be in sharper contrast with the image which ITT projected to the world 15 years ago, when it was embroiled in damaging scandals over its alleged implication in Watergate and in the Central Intelligence

Agency's efforts to unseat the Aliende government in Chile.

But much has changed since then. ITT, which once seemed bent on endlessly expanding its worldwide compared by miling. worldwide empire by piling takeover on takeover, has been forced by financial adversity to make a series of asset sales which have slimmed it down to more manageable — though still substantial — size.

Furthermore, Mr Araskog, a West Point graduate with a reserved, slightly earnest demeanour, is out of a wholly different mould from Harold Geneen, the wily and manipulative conglomerateur who presided over ITT's headlong growth in the 1960s and 1970s. Probably most important of all, Mr Araskog has discovered what it is like for a company to be turned from hunter into prey. The lesson was painfully learned in the mid-1960s, when

he fought off two successive assaults by corporate raiders who appeared intent on taking ITT private and breaking it up. Recounting the experience in a newly published book\*, he rails repeatedly against the damage which, he believes, America's industrial economy. America's industrial economy has suffered at the hands of short-term financial markets and leveraged buyouts con-ducted by what he calls "conscienceless, occasionally corrupt, speculators."

Repugnant as Mr Araskog finds the results of the raiders' activities, it is their motivation which really galls him. In his eyes they are simply playing a giant game, aimed at satisfying their greed at the expense of managements and employe His resentment at the unfairness of it all shines through when describing Jay Pritzker, the Chicago financier who raided ITT's shares in 1984.

"The Pritzker family fortune had been built by Jay's father, and Jay had known nothing but great wealth. I had grown up on a Minnesota farm in the depression days. I worked my way up the hard way, through THE MONDAY INTERVIEW

# The shift trom hunter to prey

Guy de Jonquières talks to Rand Araskog, head of ITT

government, Honeywell and ITT, and I resented the idea that a guy with inherited money could walk in and destroy the career I had built and do it with nonchalance

and indifference."

Too many people, he complains, have wrongly regarded the raiders as Robin Hoods:
"They have benefited terrifically by attacking the estab-lishment. So many Americans have basically believed that a lot of businessmen are not what they're supposed to be — that they're dishonest, that they're taking advantage or

#### PERSONAL FILE

1931 Born Fergus Falls, Minnesota; educated US Military Academy and Harvard University 1954 Defence Department, Washington

1960 Director of marketing, aeronautical division, Honeywell 1971 Vice president and group executive, ITT

aerospace, electronics and energy group 1979 President, chief execu-tive officer, ITT 1980 Chairman, ITT

they're mis-advertising prod-

Every time a raider pulls off a deal that makes him a lot of money, it grows a little more. And it hurts. Most American chief executive officers are pretty darn ethical and moral people. They may not all be 100 per cent efficient, but I don't believe 99 per cent of them sit around figuring out how to try to deceive or do something

other than what they are representing."

Though Mr Araskog thinks the leveraged buyout fashion has probably passed its peak in the US, partly because of unfavourable tax treatment, he is equally scornful of hostile takeovers launched by bona fide corporate bidders. He worries that this trend is showing

dangerous signs of getting out of hand in Europe.

"Maybe it's interesting fun to see Siemens and GEC going after Plessey. But when I first heard about it, I was appalled," he says. "Where is all this lead-ing to? Is the same pattern of activity that we've had in the US going to start in Europe? I hope not, and I hope somebody stors it"

stops it."
There is a certain irony in there is a caram frony in these strictures. After all, ITT's growth in its glory days depended heavily on charming the financial markets into supporting continued takeovers, albeit invariably friendly ones. Though Harold Geneen made which of support of the stricture of the stricture of the support of the stricture of the strict much of supposed "synergy" between its diverse range of assets, his claim was hardly

assets, his claim was hardly borne out by their patchy per-formance efter acquisition. Indeed, Mr Araskog's description of the problems bedevilling ITT after Mr Geneen stepped down in 1977 sounds curiously reminiscent of the ills which he attributes to leveraged buyouts a ruin-ous mountain of debt, lack of actively committed manageactively committed management and no coherent strategy for developing the business.
When Mr Araskog took over as chief executive in 1979, ITT was having to sell assets just to pay dividends.

It would be a little bit silly to say that I am puritanical'

On top of all that, ITT was burdened with a bloated bureaucracy. Mr Araskog recalls that one executive "was in charge of researching food on the Queen Elizabeth II, while another was charged with seeing how many places in the world he could visit and still be reached by telephone."

Mr Araskog concedes that the earlier excesses of the conthe earlier excesses of the con-glomerate movement may have contributed to the emergence of leveraged buyouts. While critical of the Geneen style, he remains doggedly loyal to Geneen the man, whom he depicts as a lonely and vulner-able figure towards the end of

able figure towards the end of his reign.

Nor, he insists, did the threat of takeover give FTT any added incentive to put its house in order. It was already shaking up its management and had decided to sell off \$1.7bn of assets when the threat materialised, though at the instance of one of the raiders it brought forward slightly the announcement of the the announcement of the planned sale.

None the less, Mr Araskog has since revealed that in the heat of the battle FIT did begin what seemed suspiciously like a search for a white knight. It

discussed possible mergers with two US computer companies, Burroughs and Sperry, (which themselves later (which themselves later merged to form Unisys) before flirting briefly with the office systems supplier, Wang. None of the talks got anywhere, partly because ITT felt it was bargainness from a position of the talks.

Mr Araskog recalls with some distaste how the attitude of Michael Blumenthal, chairor michael hatmenthai, charged as pressure on ITT mounted.
"When we first talked, it was before Irwin Jacobs (who staged the second raid on ITT) had bought his stock. But near the end, Blumenthal was a very different man. He was no

longer so friendly and nice, he

weakness.

was really high pressure and not much different than Pritzker had been."
Mr Araskog also insists that
ITT would have found it much harder to negotiate the sale of a controlling share in its telea controlling share in its tele-communications businesses to CGE of France in 1986 if it had still been under a takeover threat. "Georges Pébéreau (for-mer head of CGE) is a good friend of mine. But if Georges had been thinking that we had those raiders in there, I would never have got such a good

Having struggled free from the raiders' embrace and buoyed by recent improve-ments in profits, where does ITT head now? On Wall Street, the company is felt to lack a clear longer-term direction and some analysts would like to see further divestitures.

However, Mr Araskog says that, except for Sheraton hotels, there is no division which could be sold for a high enough price to compensate for its contribution to profits and cash flow. "And I haven't been able to make any sense person-ally of selling Sheraton," he says. "You can get into a posi-tion of saying, look, if I'm going to sell one part, why not sell the whole place? I think ITT as a corporation makes

Yet its conglomerate structure looks curiously out of tune with the times. When many other companies have concluded that more is to be gained by concentrating on a few, tightly defined core activi-ties, what is the logic of keep-ing under one corporate umbrella nine businesses as diverse as hotels, insurance, pumps, automotive compo-

nents and pulp and paper prod-

Mr Araskog replies that being part of the ITT group enhances the visibility of many of its businesses, that there are savings to be made in sharing corporate services and that central management has shown that it can contribute to the performance of the divi-sions. "I like to have the power that I have, I like to have some balance," he says.

In any case, he argues, fashions in corporate structure are notoriously fickle: "In the 1960s and 1970s you put it together; in the 1980s you tear it apart; and then in the 1990s, you put it all back together again."

What particularly irks him is that some critics who cast doubts on ITT's ability to run a wide range of businesses also laud the virtues of leveraged buyouts. "How come, if you're private, you can manage anything, but if you're a public corporation you are supposed to sell off everything except one line of business?" he asks. "To me it doesn't make any

\* The ITT Wars; published in the US by Henry Holt; \$19.95.

# The drawbacks of electronic tagging

pritain's Home Office is poised to inject a mechanical gimmick into the body of penal affairs. In a vain attempt to find a solution to the country's bulging prison population, an experiment is to begin shortly to test whether electronic tagging might provide the courts with an additional power to keep offenders out of prison.

The Government's proposal, which first appeared in a green paper in 1988, is designed to subject selected persons to the process of "tracking." The offender is ordered to wear a small water-proof electronic monitor the size of a small cal-culator around the neck or underclothing. The monitor emits silent coded signals thrice hourly to the nearest cellular radio station, and thence to a central computer.

The system is based on cellular "cells," each covering an area which ranges from a quarter of a mile to two miles, depending on the urban nature of the area. The presence of the tag wearer is monitored to these cells. The tag wearer's mobility is thus restricted to a given number of cells, in order to facilitate access to work and to other facets of a normal pat-

tern of life. If the tag-wearer moves outside an authorised cell, the tag-will emit audible signals and be noted simultaneously by the central computer. The essence of the device is the restriction on the tag-wearer's movements than would traditionally be the case of an offender on proba-

tion or on parole licence. The proposal has, predictably, found no favour with penal reform groups. It is characterised as imposing an element of prison-like conditions into the community without any corresponding likelihood that it would reduce the numbers of persons sent to prison. More critically, the electronic tagging is described as no more than a modernised form of the

ball-and-chain. Unless Parliament were to restrict severely the range of persons who are liable to be imprisoned, electronic tagging will do nothing to assist the process of reducing the prison population. Some people, on the other hand, who are more sanguine about the prospects



## **JUSTINIAN**

tion in the use of imprisonment by the courts, are also less worried about the civil liberties aspect of electronic tag-

ging.
Two academics from the University of Kent have recently conducted a simulated study of electronic tagging as a sentenc-ing option. The participants in the simulated exercise were, unfortunately, not judges or magistrates, but were individuals recruited from the university, a local sixth-form college, and friends and families of those who had already taken

part in the exercise.

A crucial distinction in the use of electronic tagging that emerged from the findings was the imposition on convicted offenders of a tag and on the remand population. Tagging was viewed as much less dra-conian than a remand in custody, but a more appropriate form of freedom than bail for those whose crimes were sufficiently serious. Tagging as an optional sanction for offenders, on the other hand, was not favoured as a punishment. It was none the less favoured as an alternative to either bail or remand in custody. Tagging was perceived as more appro-priate an option for those awaiting trial than as a

straightforward penal sanction. The researchers' conclusions were broadly twofold. If tagging were to be made available and used to any great extent, as a sentencing tool for courts, it would operate as a substitute for both imprisonment and non-cust dial penalties. It would particularly replace pro-bation, with its supervisory and intrusive component. This would produce little or no relief to the pressures on the prison system, and would tend to weaken the pronounced benefits derivable from an

enhanced probation service.

The second conclusion wa that tagging as an alternative to the "leniency" of unconditional bail, or the preferred alternative to conditional ball, or as the alternative to the "harshness" of imprisonment for weeks or months pending trial, would appear to confer a real benefit on the hardpressed prison system. But not otherwise. The researchers speculate

The researchers speculate that further research might indicate tagging as a highly favoured option for convicted offenders, if it were viewed by Parliament and by sentencers as an acceptable form of punishment. There lies the rub. The researchers do not take cognisance of the potential risk that electronic tagging offends a provision of the European Convention on Human Rights. Article 3 absolutely forbids any inhuman or degrading treatment or number of the local statement of the statement of the local ment or punishment. If electronic tagging could be seen to operate benedicially to both the offender and to the generality of crime prevention, it might escape the clutches of a legally guaranteed freedom.

Contemporaneously with the Home Office proposals for Pun-ishment in the Community, of which electronic tagging was one possible innovation, the Secretary of State for Scotland, Mr Malcolm Rifkind, warned against such developments when he addressed the Howard League in Scotland. Merely increasing the number of alter-native disposals does not bring about any significant reduction in the use by the courts of imprisonment. New disposals are often used for those who in

any case would not have been sentenced to prison.

"That is why," concluded Mr Rifkind in his address to the Howard League, "our main objective is not widening furobjective is not widening fur-ther the range of non-custodial penalties, but our strengthen-ing of the non-custodial dispos-als already available to the courts." On that basis, proba-tion, enhanced by more resources from central government, and not electronic tagging, must be the preferred option.

\* Howard Journal of Criminal Justice, May 1989. Published by Basil Blackwell for the Howard League for Penal Reform.



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